UNITED STATES AGENCY FOR INTERNATIONAL DEVELOPMENT

COMMON MARKET FOR EASTERN AND SOUTHERN AFRICA (COMESA)

REGIONAL INVESTORS ROADMAP

FINAL REPORT

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Appendices

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Appendices

Appendix A

INDUSTRY CASE STUDIES

Case Study 1: Textiles

1. Investor Description

ABC Clothing is a Mauritian clothing manufacturer. They are primarily in the business of making shirts and pants, although they have made uniforms to order for local businesses. ABC has considered options of exporting to the United States under AGOA, however its production facilities are capable of producing only a tenth of what a typical American buyer would require.

2. Opportunities

ABC sees an opportunity to supply countries in Southern Africa including Zambia, Zimbabwe, Botswana, Malawi and Namibia with its clothing. There are few local manufacturers with the exception of Zimbabwe, and while the clothing must be made at a low cost to accommodate the income levels of the market, clothing remains a basic necessity item.

ABC understands that competition will come primarily from within the region from South Africa and Zimbabwe. It also knows that foreign goods sourced from Asia are plentiful in the countries. Finally, the company has great concerns of competing with used clothing that is present in some of the target countries.

3. Investment Process

ABC is unfamiliar with the marketplace and the rules of doing business in its targeted countries. Little information is available to them, however some individual buyers have come to Mauritius to buy goods from Zambia and Zimbabwe for resale in their countries.

ABC would likely send management to trade fairs and exhibitions typically during August and September with the intent of making contacts with local distributors to find a partner. ABC would prefer to sell its goods into the market for at least one year before deciding on an investment destination. Because Mauritius' labor market is almost at capacity, it will be very difficult for ABC to expand its operations to serve these markets. It does have the option of expanding production to Madagascar, which is what many Mauritian firms have done.

4. Decision Process

Cost of Investment: ABC is concerned about the time that management must take away from the factory to establish marketplaces. From speaking to other clothing manufacturers, it is extremely difficult to establish relationships with reputable local distributorships. It is likely that they will have to work on a cash basis until strong relationships are built, and this can stunt the growth of the business.

ABC is unsure about available land and/or existing facilities into which it can expand its operations. There is little information available to them in Mauritius on labor laws, productivity rates, and infrastructure rates (although Mauritian firms are better off than their counterparts in

Namibia, Zambia, and Malawi due to the presence of the Mauritian Export Development and Investment Authority). ABC anticipates a lengthy process in investigating these costs.

Revenues: ABC is currently unsure as to the level of competition, although it feels that it can competitively price its goods with Zimbabwe and South Africa, particularly with duty-free access to the marketplace. It understands that many local competitors, particularly in Zambia and Malawi, have gone out of business, and it believes that this is due to foreign competition and the presence of used clothing. It also understands that local wages are low and in some of the envisaged marketplaces stagnant. Nonetheless it feels it can compete, although the products it will manufacture will be of a considerably lower quality that what it delivers to Europe.

Cost of Doing Business: Clothing does not have a high transport component, although the lower quality clothing does, by its nature, have a relatively higher cost component. What concerns ABC in some respects is the access to currency. Several of its target markets have experienced shortages in hard currency, and in some cases significant devaluations have taken place in short periods of time. ABC can initially work around this problem by pricing in dollars and demanding payment in cash, but eventually if it intends to expand, it will be forced to become more immersed in the market's currencies.

ABC does not anticipate heavy bureaucracy. There are positive stories of firms working in Madagascar, and they believe that the integration of economies that comes from COMESA (more so than SADC) will allow them choose a site and open a facility fairly easily. ABC does not perceive these countries as being very corrupt and feels it can do business without making payments and bribes to officials.

Risk: For the most part, ABC does not fear nationalization of its facilities so it does not feel this form of risk. It feels a greater risk lies in its ability to repatriate profits, make payments for raw materials, and collect from debtors. ABC does not believe that the court systems in these countries will protect their interests, and they worry about changing policies towards profits and overseas remittances.

It has encountered a number of stories of unscrupulous business people and this is of great concern to them. ABC will seek to ameliorate this risk by seeking out business partners with whom other Mauritian firms have dealt.

5. Analysis

The scenario of ABC clothing emphasizes the barriers inherent in sales and revenues. Competition has all but eliminated clothing manufacturing in Zambia and Malawi, and it threatens Zimbabwean firms. Some of this competition comes through legal channels, a considerable amount is smuggled in duty free. The question that will face ABC is whether they will be able to sell enough to justify the investment.

In this scenario, it is likely that ABC will move very slowly, learning the ropes via marketing its goods for cash through various contacts. Many other firms from Zimbabwe and Mauritius have gone this route, and have sometimes had the misfortune of selling goods on terms to distributors that are either unscrupulous or unable to pay. Doing business on a cash basis makes it very difficult to expand the operations, so in this case growth comes very slowly.

Some of the firms interviewed have proceeded directly on these lines. Firms mainly from Zimbabwe and Mauritius, and, to a lesser degree Malawi have been encouraged by sales to individual traders that have purchased items with cash. They have traveled to marketplaces, sometimes using the exhibitions, other times trying to make local contacts through telephone books and word of mouth. Both are slow and often unrewarding processes. In most cases, the company owners themselves are traveling. This puts a heavy burden on the management of the facility because the owners often play a major role in the factory's day-to-day operations. Communications are difficult and very expensive between member states, and travelers feel cutoff from their facilities.

Assuming ABC makes it past the stage of merely trading in the nations and chooses an investment destination, it must turn to some of the government imposed processes. For the most part, clothing manufacturers do not have a heavy bureaucracy burden imposed on them. They are often labor-intensive operations with low environmental impact, and most governments are very welcoming to this type of operation. However, ABC will likely face very difficult problems when it comes to exporting management, particularly in the startup stage.

High unemployment in the target countries make it difficult for immigration departments to understand why operations managers, many of them with fewer academic qualifications than some of the local unemployed, must be imported. It is likely that ABC will fight a pitched battle for every non-senior executive it wishes to import. Even countries that permit a base number of expatriates (such as Zambia's allowance of 5 expatriates) still create problems if they feel that local talent is available.

It is important to note at this time that this investment can range from anywhere between 40 and 150 percent of the firm's investment already in Mauritius, making it, for this investment, an extremely high-risk investment. This investor's inability to import management will scare off many investors completely from investing. Investors in Mauritius suggest that in Madagascar, there has been little or no interference by government in allowing Mauritian firms to import labor to Madagascar.

All these points may be made moot if ABC is unable to sell its goods. No bureaucracy, magnificent relationships with distributors, stable currencies and other factors mean nothing if the typical garment is sold for less than ABC's cost of manufacture.

The first concern for ABC will be used clothing. Surprisingly, some Malawi manufacturers do not attribute the import of used clothing to the downfall of the Malawian and Zambian clothing manufacturing industries. However, it is clear that goods, some of which are of higher quality than goods sold as new, are available for a fraction of the price and with wide distribution.

National governments are faced with a dilemma: despite claims by the above-mentioned Malawi firms, Zimbabwean and Zambian clothing manufacturers claim that there is little market for new goods. A once thriving Zambian clothing manufacturing industry, albeit well-protected by tariffs in the past, has been decimated, putting thousands out of work. Neighboring countries Botswana, Namibia, and Zimbabwe, have either strictly curtailed access or prohibited them altogether.

However, used clothing provides a sometimes-high quality basic necessity to low-income and unemployed individuals at affordable prices. Clearly there is a consumer benefit as the marketplace is more open and free.

This issue will magnify and may become a significant source of disagreement when the common external tariff is negotiated. Zimbabwe has a great deal of jobs in the clothing industry, and while it has the capability of exporting, a great deal of the work is dependent on the local marketplace. Should Zimbabwe open its borders to used clothing, it could possibly close a number of small manufacturers. Alternatively, Zambia and Malawi have provided citizens the opportunity to purchase used clothing at a significant discount to new.

ABC, like many manufacturers, is not very familiar with COMESA, the Secretariat, or its policies. It has heard of the free trade area through newspapers and announcements, and feels that it provides it with an advantage, particularly with competitors from South Africa and the Far East. Many firms do not understand the difference between SADC and COMESA, and are skeptical that real changes are taking place. Some have noticed lowered duties, but the duties have lowered very gradually. This left many interviewees indifferent about the announcement of a duty-free area. None of the firms interviewed had not heard of a Common Investment Area.

ABC will soon learn that a large number of goods enter the region completely duty-free through payoffs and bribery. This study was not intended to collect the percentage of goods that enter COMESA through these means or to identify ports of entry. However, several firms interviewed that have exported to neighboring countries have been disappointed that their advantage is not as great as first thought.

A complete analysis of imported goods was not done, but interviewees suggested that the goods that enter local markets are taken from batches of clothing destined for Western countries and are seconds and of lower quality. Their costs are minimal for these goods, as they have nowhere else to send them. When duties are not paid, these goods come into countries at a significant cost advantage.

The bottom line is this: If ABC cannot sell its goods at a price that allows it to be profitable because of competition, it will not expand its operations to other COMESA countries.

6. What COMESA Can Do

There is an ideological battle to be waged in thinking this process through. This report suggests that governments be concerned that manufacturers be able to acquire the price at which they can profitably sell their goods. This is not a new concept as manufacturers have, seemingly since the beginning of time, argued for more protection and more tariffs. On the other hand, the people that elect the government must buy these goods. Giving the population access to affordable basics necessities such as clothing is a must.

On the one front is the issue of used clothing. Its cost is minimal, not much more than the cost of shipping. Its quality is sometimes very good. Its distribution network in countries that allow it is extremely strong. Yet clearly it tremendously narrows the market to producers of new clothing and reduces the opportunity to engage this labor-intensive industry.

The other front involves the avoidance of paying duties by unscrupulous business people and customs officials. Long recognized as a drain on national economies, economic integration means that corruption in one country becomes another's loss. COMESA has not, to a large degree, addressed corruption as a regional issue. It has primarily left it as national. Indeed, degrees of corruption vary greatly from country to country. However, it is recommended that COMESA raise the issue of corruption as a regional issue.

Some textile firms that operate in markets that have used clothing continue to sell to the local market, indicating that opportunities do exist. However, the lack of information available has plagued firms, which was mentioned during the interviews. The trade fairs and exhibitions have provided firms with good opportunities to make contacts, but the costs are high. This goes beyond the cost of the plane fare and accommodation, but extends to the absences from the office.

By providing firms with more information, COMESA can decrease the cost of investment and ensure that textile and clothing firms can achieve the revenue levels that are required to invest in exporting.

Another point that was addressed in interviews was the American Growth and Opportunity Act (AGOA), which promised duty-free access to a massive marketplace. However, the vast majority of local manufacturers do not have even a small percentage of the required capacities to satisfy American firms. Some of the larger Zimbabwean and Mauritian firms either have the capacity or the resources to sell into the market. Mauritian firms, lacking the available labor pool to expand, have tapped labor resources in Madagascar, through bi-lateral accords.

However, it is difficult to see where COMESA will have an impact on AGOA. While Zambia and Zimbabwe produce cotton, it is sold at world market prices as a commodity. Most countries in the region already either have incentives for raw material import or are duty free. Textiles are often imported from countries with comparative advantages (typically the Far East). AGOA allows certain countries to source raw materials from outside the region, but it is likely that companies based in those countries that are not eligible for this exemption will simply shift production to countries that are eligible (e.g., Mauritian firms in Madagascar).

AGOA has already had an impact on production in some firms. This impact is not the result of COMESA integration, but comes from the need of these firms to tap into other markets to increase their benefits, whether through export or through moving their production. COMESA could possibly have an impact if it can assist small producers in given regions to connect with each other across borders in order to meet the scale for the demands of the U.S. Market. This will only be successful, however, if private sector investors find this profitable by standardizing the quality of the small producers to meet export demand.

Case Study 2: Steel

1. Investor Description

Steelmakers is a Kenyan steel maker that has invested in a new Zimbabwean mini-mill. It has considered other products including building materials as well. Steelmakers is a medium-sized company employing 100 and is 20 years old. Its facilities are old but productive.

2. Opportunities

The shortage that Steelmakers has always faced has been in the availability of raw materials. Steelmakers has always been able to sell all of its goods, although it never has sold goods into Zimbabwe before it opened the facility. In a 1996 conference run by ZISCO, management saw the opportunities in Zimbabwe to establish a new mini-mill. They were then visited by Zimbabwean President Mugabe. The opportunities existed in opening a new mill to serve Zimbabwe, Mozambique, Malawi, and Zambia. They noticed that currently most of the scrap (the primary raw material for mini-mills) was being exported from Zimbabwe unprocessed.

3. Investment Process

Steelmakers has never sold into Zimbabwe, but the opportunity here lies not as much in the market but in the ready access to supply. The marketplace is terribly constrained by a lack of available raw and intermediate materials, and hence there is a significant opportunity for Steelmakers. The investment process began in 1996 with the plant being commissioned in 1998. The investment is phased in three stages, with the first two (rolling mills and melting and manufacturing of billets) having already been commissioned. The next stage of direct reduction iron has not yet been scheduled, but will be necessary when the available scrap runs out in 5-10 years.

4. Decision Process

Cost of Investment: Steelmakers was required to spend considerable money taking time away from their Kenyan operations to visit Zimbabwe and make preparations. They were supported greatly by the Zimbabwe Investment Centre and the Mayor of Redcliffe (the site in which they ultimately invested).

While high level authorities were highly encouraging and supportive, bureaucrats imposed several hurdles on the investment. Immigration officials made the import of technical personnel from Kenya and India very difficult. Other aspects of the investment took longer than Steelmakers anticipated given the high level support it had.

Steelmakers anticipates a need to expand, but must locate an equity partner to do so. Current interest rates and their inability to get fixed rates of interest make borrowing unfeasible for plant expansion.

Revenues: It appears that Steelmakers can sell everything it can make. It is constrained by supply now, and will require a new source of scrap within 5 to 6 years. Presently 40% of Steelmakers production is sold into Botswana, Zambia, and Malawi, with intentions of expanding into Mozambique and South Africa as supplies allow.

Costs of Doing Business: Steelmakers' biggest concern was the costs associated with managing two facilities in Kenya and Zimbabwe. Steelmakers is a family owned company and must divide its management over the two facilities. With the costs of communication and transportation, this requires able full-time management at both facilities

However, Steelmakers Kenya was able to establish a management system that has been in place for some time so that they were able to dispatch key management personnel into Zimbabwe. Steelmakers replaced management bound for Zimbabwe with imported managers from India and supplemented the management staff in Zimbabwe from India.

Risks: After making a decision to invest in Zimbabwe, duty free exemptions on capital equipment were repealed, creating a high cost item that was unbudgeted in the original model. Steelmakers imported 70% of their equipment from India (it was not available locally). Steelmakers is still worried about what it considers a not yet stabilized policy environment.

5. Analysis

This case is intended to illustrate the effect of risk on the investment decision-making process. To most steel and steel products manufacturers, the market is there, the raw materials are getting there, and the infrastructure for trade, while in poor conditions in some places, isn't bad and is improving. Most firms do export goods, usually coordinated through sales offices. Very few have made outward investments in exporting via sales offices, warehouses, and productive facilities however, with Steelmakers a notable exception.

The steel and steel products industry appears to provide the greatest promise for cross-border investment in COMESA. Most companies are not greatly threatened by foreign competition, although South Africa's productive capacity, capable marketing force, and knowledge of the region make them formidable. Perhaps the most fundamental constraint is the supply of raw materials. Some suppliers have increased their capacity, but still do not meet the demand that exists region-wide. Steelmakers has managed to see opportunity in this limited supply by introducing a relatively new technology to take advantage of available scrap.

It is important to revisit the investment formula at this stage and introduce the concept of the hurdle rate. This can be expressed in several ways depending upon the source of financing. The most common application is that rate at which the investor can get on his money through alternative means. Should the project's return on investment exceed the hurdle rate, the investment is typically made.

Steel products manufacturing typically provides a low rate of return on what is usually a large investment. The products are fundamental, and are resistant to recessions although not immune.

Steel products need low risk environments to proliferate, including an uninterrupted supply of raw materials, the ability to realize profits, and no threat in the loss of the fixed asset investment.

Whether risk is perceived or real is immaterial. However, Steelmakers's decision to invest was partially predicated on the availability of supply, but mostly made on the manner in which they perceived risk: the risk of getting their money back to Kenya. High level representation was critical to their assessment.

It has been mentioned frequently that companies that operate in Sub-Saharan Africa enjoy the greatest profitability in the world. If examined in the context of the formula established earlier in this report, this is likely the result of the region imposing the greatest risk in investment. Only firms that anticipate high returns on investment are willing to invest due to the perceived risk of investment.

Steel makers therefore perceived risk in four areas:

A. Would they have access to a supply of raw materials on an uninterrupted basis? Manufacturers have limited options for acquiring raw materials, and these sources have not been able to meet demands, particularly over the past several years. In the case of Steelmakers, it is likely that the supply will be gone within 10 years. They also have some risk that the one steel manufacturer, ZISCO, a government owned body, will not continue to provide supply to the mini-mill.
B. Will they be able to repatriate their profits regularly? Will the exchange rates hold up? Will their clients be able to pay them without fail? On a low return-on-investment project, loss of profits through unpaid invoices and exchange rate losses are magnified. There is considerable risk when borrowing, as interest rates fluctuate, sometimes wildly.
C. There are many concerns, both perceived and real, regarding the property rights that manufacturers will enjoy. There have been very few nationalizations of industries over the past decade, and few signs that this is a threat. Nonetheless manufacturers always have this in the back of their mind.
D. Will the incentives that were offered to them persist? Steelmakers was stung once by the promise of an incentive that was later repealed. They will, most certainly, figure this into future estimates when evaluating add-on projects.

6. What COMESA Can Do

Lowering risk requires large scale, long-term programs, many of which COMESA already have underway. Long-term impacts on investment will come from monetary harmonization and nationalization insurance funds.

COMESA should ensure that all countries maintain free movement of capital and profits throughout the region. Some countries that have recently been through severe shortages of hard currencies have placed bureaucracy and blockages of movement of capital and profits. That these policies even go into effect in one country would lead to investor's perceptions of risk of another. Regional stability in this regard is critical for the perception of risk to be reduced.

Monetary policies, inflation and interest rates are, for the foreseeable future, national issues that have impacts on regional investment. Most COMESA nations practice solid monetary policies that include reducing inflation and maintaining real interest rates. However, many countries are burdened with debt-laden budgets putting pressure on interest rates. This is a long-term problem on which COMESA's impact can only come through provide support and guidance.

A recurring theme throughout this study is the need to continue to disseminate information to investors, traders, and the public at large. As mentioned earlier, what is important on an investor's decision is not the real risk, but the perceived risk. In the absence of information, perceptions of risk often magnify existing issues and, in some cases, create issues where none exist.

Many countries have maintained stable policies for over a decade, but most investors don't perceive that to be the case. COMESA would do well to publish investment codes and propaganda, publicizing the stability of some of these codes and investors' success stories to reduce the perception of investment risk.

Harmonized investment incentives would not cure the perceived problems of instability with regard to incentive policies, but it would go a long way towards comforting investors that feel that governments are all too prepared to change incentives with the change of government. If Member States were to bind themselves to agreed upon incentives that could only be removed multi-laterally, investors may feel more comfort in that the incentives they signed up for will last the duration agreements.

Case Study 3: Oilseeds Industry

1. The Investor

ABC Consumer Products of Europe is an international conglomerate that draws from its worldwide technology and resource base to invest in various markets around the world. In the COMESA region, ABC has long had six separate investments in oilseed and vegetable oil products, each operating as individual national investments serving national markets. There is little or no cross-border or export activities from any of the six.

Because of COMESA's movement toward a single market, ABC's strategists in Europe are considering the possibility of rationalizing operations to take advantage of comparative and competitive advantage in different countries. Instead of having a fully integrated operation in each country to serve a small market, they would like to put pressing facilities in one or more countries, high grade refining in another, seed development and production in another, and so on.

2. Opportunities in the Industry

Consumption of vegetable oils, particularly cooking oils, is universal throughout the COMESA region. Although consumer buying power is low, virtually all consumers purchase oils and will continue to do so. Production of oilseeds does not meet demand, so any increase in production can be absorbed locally and displace imported oils, which constitute 50% or more of some markets. Internal barriers in the region have made it difficult or impossible to capture economies of scale that would otherwise result in higher productivity and production, and lower costs of local production that could compete more effectively with imports. The single market potentially offers very attractive opportunities to a cross borer investor with the resources to approach the market as a whole.

3. Investment Process

ABC first must build a central management team to oversee COMESA-market operations from a regional perspective. They intend to move some existing managers from their current locations to the new regional headquarters, which will be in one of the country capitals. To rationalize their operations, they will want to consolidate some disparate smaller production unites into fewer, larger units. This will require them to close plants that are not or will not be profitable under the existing framework and to invest in new production units, either expanding capacity of existing units or investing in new plants. This will also entail the sale and purchase of real estate and equipment, which must be financed.

4. Decision Process

Cost of Investment: Some countries are offering very strong incentives for new investment and modernization, while disinvestments (closing plants, reducing jobs, selling off property) may be very costly. They anticipate that they will be unable to sell their real estate in a timely manner due to bureaucratic delays – some of which may be punitively applied because of the disinvestments – and that they will have retrenchment costs for employees who cannot be transferred to new locations or industries.

They will also be building larger, sub-regional silos, warehouses, and distribution centers. They plan to upgrade equipment, which they expect to be welcomed by host governments; indeed, they expect significant tax reductions through incentives. The investments will require bringing in foreign technicians who can operate and maintain the equipment, and believe that it will take form 2-5 years to train locale technicians who can take over some of the functions. A number of managerial and technical positions will be permanently staffed by expatriate employees to ensure that the standards of ABC Oil Europe are maintained, but they believe that they have sufficient experience to handle this without undue difficulty.

ABC is also prepared to invest in larger tankers and long-haul vehicles, which will be used to move materials and products throughout the market.

Revenues: ABC perceives that they will be able to sell more oil by lowering prices, creating brand loyalties and out-competing importers of refined Asian oils, thus capturing a larger market share in cooking oils. To the extent that the market continues to be unable to supply sufficient raw materials for pressing and processing, they also believe that they will be able to continue to supply the shortage with Asian crude oils, which can be refined more efficiently through one or two single refineries. They also believe that they can finally create a seed improvement and seed sales unit that was not economically viable under the old system.

Cost of Doing Business: ABC is assuming that the unnecessary costs of doing business will disappear with the reduction of tariffs and non-tariff barriers. The most important constraints that have fragmented the investment to date occur at the borders. Differing and unpredictable tariff rates, long processing delays, and unpredictable customs categorization have kept the company from crossing borders frequently in the past. Moreover, the cost of transport due to poor road infrastructure has also been problematic and this will not necessarily change under the regional scheme.

Risk: ABC believes that its greatest risk is in tariff changes, import/export barriers, and corruption. They can hedge the risk of crop failures by having supplies of crude oil for their refineries, but are unsure of whether they can truly guard against policy changes. Currently, their markets in some of the Great Lakes Region are damaged by illegal smuggling of untaxed imports (with official complicity), and they must compete with foreign oils that are illegally labeled as COMESA origin products, which benefit by paying reduced inter-regional tariffs.

5. Analysis

The discussion of ABC Consumer Products centers on the cost of doing business. As long time players in the individual marketplaces, ABC has created a profitable, if inefficient firm. It knows its marketplace, and its products are known. It sees an outstanding opportunity with the lowering of trade barriers. However, the success of the project is predicated on its ability to conduct business across borders seamlessly.

The investment shouldn't go too badly, although there will be rough patches, particularly with regards to layoffs and downsizing. The sale of property may be time consuming, and while ABC may have the financial resources to absorb the costs of disposition of land, many smaller firms do not. The investment in improved facilities will likely go well, although in some cases, it has been noted that high technology investments are often stunted by planners and inspectors that do not have the knowledge to properly evaluate some of the components of the investment.

Transport costs in the region have started to recede. Some attribute this to the reduction of bureaucracy, the improvement of infrastructure, and the improvement of roads. Others suggest that it's a result of increased competition in the trucking industry. Costs are still high compared to world standards, but should they continue to fall this project becomes more viable. Additional work needs to be done to harmonize axle-weight loading limitations for long-haul roads and to reduce border delays.

Another plus for ABC would come from the customs bonding schemes. By transiting borders with goods in bond, ABC could avoid the costly delays of multiple and untimely inspections of imports and exports, and the considerable bribes that can be imposed. It would also lower the costs and frequency of in-transit inspections that are often imposed through random roadblocks and inside some of the countries.

The oilseed industry is not immune to smuggling and corruption on a large scale, and many importers and manufacturers complain about the presence of foreign oils that come into the country duty free. The presence of on-again, off-again regulations, barriers, and duties create opportunities for increased corruption at the border posts and create additional costs for a company such as ABC. While Western companies are not immune to corruption (some even propagate it), many companies avoid it at great cost.

Companies such as ABC Consumer Products are very encouraged by the reduction of tariffs promised by COMESA, but are, at the same time very skeptical about the impact on their industries. Despite trade agreements that have come into effect years ago, disruptive tariffs have been imposed on short notice particularly on products that come from the agricultural industries. While COMESA does provide a means to debate such tariffs through a Court of Justice, interviewees were highly skeptical that the environment that they had one day would not change significantly the next.

This sort of investment would be next to automatic in a place such as the USA or EU. The impact of improved economies of scale is critical to an industry such as pressing, refining, and packaging. Unfortunately, a company such as ABC might hold off on such an investment until it feels confident that the increased economies of scale will offset the still high costs of trading a commodity across borders.

6. What COMESA Can Do

This is one investment in which the Department of the Investment Promotion and Private Sector Division of COMESA can play a significant interlocutor role between the private sector and multiple governments. The difficulty will be that in terms of investment and employment for *this* project, some nations will be winners and others will be losers.

The process of negotiating with multiple government departments (everywhere in the world) within a single nation is difficult enough, even for large-scale investors. Some countries are small enough that large investors have direct access to political leaders, which helps facilitate the process. This gets amplified when multiple governments are involved.

In this vein, COMESA can look at some of the many consumer products companies in the region and work with them to find solutions to expand their operations through rationalization. By doing this, COMESA will gain an even greater insight into some of the issues that investors face by running integrated operations.

COMESA has already been promoting a regional bond guarantee scheme, but not all of the countries and transport routes are ready for it. The scheme works best for products and industries utilizing container loads, so that not all routes will benefit equally at first. With that in mind, a pilot project on the Mombassa-Kampala highway or another major intermodal corridor might be the best way to begin. COMESA could work to bring together a few countries at a time, then, assuming success, roll out the program to other routes while applying lessons learned in the first project.

Transport costs, though improving, are critical for success, especially for landlocked countries. There are still harmonization issues such as axle-weight loading, vehicle maintenance, and the freight clearance and inspection procedures at the border. The Yellow Card insurance scheme has wide support in the trucking industry, which notes that there are still occasional problems with enforcement, although the situation has dramatically improved over the past two years. Unfortunately, there is no adequate reporting mechanism to capture complaints about this and other infractions. COMESA can have an impact on enforcement in two ways. First, COMESA could upgrade its existing web sites to permit feedback on enforcement issues, including the filing of complaints. Second, COMESA could consider permitting jurisdiction over infractions. This may be less plausible, but something needs to be done to bring non-complying states into compliance, as they damage investment for every neighboring country, not just their own.

Case Study 4: Leather and Leather Products

1. The Investor

ABC Hides Company is a Ugandan trader of skins and hides that is considering investment possibilities in COMESA to add value to its exported products. Starting as a simple trader of raw hides and skins between producers and exporters, they have integrated the trading relations from production to port, and provide a regular though modest supply of raw skins and hides to the international market. Much of their catchment area is close to the Kenyan border and they believe that they can also add Rwandan and Kenyan operations, taking advantage of falling transport costs along the Mombassa-Kampala corridor. Investment to date is in two small collection warehouses, a larger warehouse near the port, and some small trucks. They currently provide no value added, only consolidation and shipping, but recognize that even small investments in upgrading their products can move them up the value chain to capture higher value on the export market. Long-term, they are considering the possibility of manufacturing leather goods for the regional COMESA market.

2. Opportunities in the Industry

ABC knows that the export market is willing to pay significantly higher prices for sorted and graded hides and skins, and even better prices if the pulling quality can be improved. The market is far from saturated, and recent destruction of European cattle and limitations on growth due to Mad Cow and Hoof and Mouth diseases actually increases demand, at least in the short-term. Adding value will require downstream training in production, grading, sorting, and quality control issues. Regionally, there is also increasing demand among Kenyan companies for local hides, both for re-export to Europe and Asia and for value added processing, including tanning and leather goods production. Ugandan tanneries are operating well below capacity and there appears to be no realistic local growth potential in the leather products industry due to low buying power locally and low quality for the export market. ABC believes that their best opportunities for upstream expansion, aside from moving from raw to wet blue hides, is to partner with a firm based in Kenya.

3. Investment Process

As an established trader, ABC already understands the trading system from slaughterhouse to port, and has established relationships with Ugandan suppliers and a few low-end European and Asian buyers. The company is familiar with processing, but does not understand it, and will need to obtain training as well as providing it to the suppliers. They believe that they can also invest in warehousing and processing facilities in Kenya along the trade routes to add value to Kenyan raw hides and skins. Several competitors further east in Kenya have the processing skills, but they but do not want to provide them to ABC based on a misconception that ABC will then compete directly with them. As a result, ABC has decided to approach the East and Southern African Leather Industry Association (ESALIA) to see if trainers are available through that organization, as well as contacting their foreign buyers for possible training. Due to costs and difficulties in bringing in foreign trainers, they decide to send several individuals for training in Kenya. They assume that there will be immediate pay-off as they improve the quality of hides and skins, and as they grade and sort the skins and begin to look into the purchase of additional land and facilities for processing and warehousing in Kenya and Rwanda. ,

They believe that they can finance their initial investments from existing cash flow and the immediate increase in revenues expected from value added, especially by moving into the very lucrative Italian market. They have decided that any additional upstream investment into actual tanning and leather production will need to wait due to high costs of equipment, chemicals, and effluent treatment facilities and the excess capacity of existing tanners. Even then, they expect to partner with Kenyan tanner, and have decided to build relationships by entering supply contracts now with several Kenyan tanners for wet blue hides.

4. Decision Process

Cost of Investment: For quality improvement, the upfront costs are relatively low, consisting of training and purchasing of improved skin pulling equipment. ABC feels that this can be funded from their current cash flow, with no need to borrow. They can train some of their traders who have a background in hide production to train Rwandan, Ugandan, and Kenyan pullers in higher quality skin production.

Each step up the value chain will require substantially more investment. Processing will increase the need for warehouse and processing space, additional staff training and hiring, plus some equipment and inventory of inputs. They are vaguely aware that there may be environmental laws about processing, but assume that the laws can be ignored or that the officials can be paid off. Land is available in rural areas - close to the producers - at low cost, but may take time to obtain. ABC believes they can navigate the bureaucracy sufficiently through contacts, relatives, and payments to speed up the process, and to obtain licenses they will need.

For tanning, the initial costs are prohibitive without significant financing, especially if they must comply with effluent treatment laws. If they can share effluent treatment facilities with other producers, then they can lower the cost. This is one reason they have decided to work with a partner, initially through a supply contract, and put off larger investment until later.

Revenues: For the export market, ABCs revenues from improved quality, graded and sorted hides will come from the established international market for hides and skins. They feel that they can immediately improve their revenues with existing buyers, and can find other buyers who are in the market for wet blue hides instead of raw. Thus the market is much larger and has pays more for improved products than is true for their current line.

ABC believes that it can also obtain acceptable returns exporting to Kenya under a supply contract, especially because Kenyan exporters receive a 20% rebate on exported products, giving them more money to purchase downstream products. Examination of the finished products market, however, is very different. The buying power in the region is very low, products must compete with imports of second-hand shoes, which are very inexpensive, and the leather products simply do not compete well on the international market due to quality. They decide that they will not enter the production line at all, but may look into it again in five or ten years.

Cost of Doing Business: The major costs for ABC will be in transport, tariffs and duties. Transport cost is already something they know well as traders and exporters, so that ABC sees no additional problems there. For tariffs and duties, they already handle Kenyan and Ugandan taxes. If they incorporate a subsidiary in Kenya, however, as a Kenyan company, they can also capture the 20% Kenyan rebate for exports of value added skins and hides. They will also need to learn the import side of the equation in order to bring in the chemicals and equipment they need. If they can develop themselves as a supplier of these items in the region, they can also defray the costs of sending their trucks home empty from the port.

Risk: ABC's most significant risks are at the Kenyan border. Unstable practices in applying duties result in varying costs. Although ABC has the raw hide system down well, the wet blue market is new to them. In addition, there ability to develop Kenyan businesses may be negatively affected by selective subsidies to purely Kenyan companies who will be competing for the same raw skins, but at with a lower cost structure. Smuggling is an issue for supplying skins to Kenyan tanneries because smugglers can undercut their prices and reduce their market share. For export to Europe and Asia, however, it is not particularly relevant

5. Analysis

The ABC Hides case study focuses primarily on the costs of investment. Although this Ugandan company understands the dynamics of its own country and the export market for one commodity, they do not fully understand the complexities of expansion.

Their first investment is in training. ESALIA, the Leather and Leather Products Institute, and a number of public and private sector initiatives to improve skills in the leather industry will enable ABC to obtain training at different levels and lower costs than were available until a few years ago. These organizations are beginning to respond effectively to demand in providing not only the needed training, but also market information and research. This will greatly enhance ABCs chances of success. On the other hand, ABC intends to keep the grading and quality control inhouse to avoid expenses on contracting out. This is a mistake initially, because they do not have a reputation for the higher value goods, whereas grading by a recognized authority would ensure buyers that the goods are indeed higher value. As a result, ABC will find that they have made mistakes in sorting and grading, leading to lower returns and a damaged reputation.

To expand into processing, they will need additional land and facilities. Land is relatively inexpensive and available (except in Ethiopia, which ABC has not considered as an investment market due to this problem and the lack of any common cultural ties). However, ABC has underestimated how long and costly the process will be, and that they may encounter serious discrimination while buying as foreigners. These problems make it tempting to engage local counterparts to obtain facilities for them, but this raises the risks, especially if the local counterparts are unscrupulous. Courts may not enforce the contracts in their favor.

Failure to understand the need to establish a reputation for their value added product means that ABC will not enjoy the increased cash flow as quickly as expected, and will thus need to obtain financing for their various investments. In addition, they did not realize that their newly found Italian buyers will only take product on consignment, and that banks will not finance consignment shipments. Unfortunately, commercial lenders will also not permit them to use inventory, equipment or after-acquired property as collateral to lower the cost of financing nd they may be subject to interest rates as high as 30-45% annually. This cost of capital will slow down their scheduled investment plan, requiring them to grow much more slowly as they try to build and pay off their financing while learning the new markets.

They have also underestimated the time and energy needed to obtain permits, licenses and approvals, especially when attempting to operate as a foreign company. They are likely to run into corruption among some officials, then find honest officials who will want to sanction them for attempted corrupt practices if ABCs gets in the habit of grease payments. When they run into problems in contracts with local counterparts, especially local labor, they will also find that the courts generally favor their opponents, increasing the risk of their investments.

Investment as a new comer into the tanning industry will simply not work in the current environment. There is already a very high level of excess production capacity outside of Kenya, and Kenya is only somewhat better. Initial costs of effluent treatment plants are very high, and can destroy the competitive capacity of the environmental laws are not applied to all producers. In other words, if some tanneries are not required to comply with effluent treatment laws, they will completely undercut their compliant rivals because of the high levels of expense. The local market for products has low buying power, so there is little opportunity for a newcomer to recapture investment and achieve an acceptable return on investment.

ABC will slowly be able to build its operations into basic processing, but will not get into processed leather or leather products such as shoes. However, they will eventually be able to make significant revenues from their improved quality, which will also result in higher value to the producers.

6. What COMESA Can Do

This case study provides good examples of both successes and gaps. On the success side, ESALIA and LLPI are excellent examples of the importance of strong industry organizations. These organizations reduce the cost of investment by bringing technology to the region and offering it to their members at much lower cost than would be incurred through bringing in foreign experts or sending local trainees abroad. Moreover, they provide critical market information, including price and quality data. As they develop further, they can also provide certification of quality, or assist other organizations provide such certification to ensure consistent prices. This lowers the risk for buyers and enables them to pay for guaranteed higher quality without fear of being tricked or cheated. COMESA's support for these organizations in various sectors and products will have positive impacts for the entire region.

There are several obstacles to investment highlighted in this study. First, there are still high barriers to direct investment in the form of non-tariff barriers such as approvals and licenses. As noted in any of the many national Roadmaps, these discourage new foreign investors, but they also discourage regional investors who must put up with these problems in each new country. COMESA can continue to highlight these problems in the context of impact on regional investment and work toward regional standards based on international best practices.

Cost of funds for investment (or even for financing operations) was noted by many investors in all of the industries studied, not just leather. COMESA (in its previous incarnation as the PTA) has established and still supports a project and trade finance institution, PTA Bank, which is headquartered in Nairobi, Kenya. Other programs and institutions are needed , however, because demand for financial services is well beyond this institution and even existing commercial banks to meet. Even with increased financial services, however, the region suffers from a proper legal framework for secured financing based on registry and notice. Without this, growth will be drastically limited. COMESA should seriously consider a regional program to encourage adoption and implementation of secured financing laws and registries. In fact, this is exactly the type of change economist Hernando de Soto describes as indispensable for unleashing the value of billions of dollars of "dead capital" in the developing world.

Issues of corruption or "unlevel playing fields" have been emphasized several times in this study. It is worth noting that there is another side to this. Some investors are very good at using corruption to obtain unfair advantages and drive competitors out of business or limit market access. Thus they do not only have keep new investment out, they can create cartels and monopolies that raise the cost of goods and lower the number of jobs produced. COMESA is a natural clearinghouse for information on corruption and leading the initiatives to reduce it. The existing web site could serve as a point for confidential reporting with eventual public disclosure when accusations are found to have merit. (Claims of corruption should not be immediately made public without verification – corrupt investors are among the first to accuse their competitors of corruption when better products begin to cut into existing markets.)

Appendix B

COUNTRY STUDIES

ETHIOPIA

Ethiopia, situated in the horn of Africa, is the host for the headquarters of the Organisation of Africa Unity (OAU) – now being transformed into the African Union (AU) – which sits in the capital city of Addis Ababa. Ethiopia was among the first African countries to gain independence, having achieved it in 1941. The population is currently estimated at about 60 million, producing a Gross Domestic Product of US $24.8 billion. The country is endowed with rich minerals: platinum, gold and copper being the main resources.

Ethiopia has, however, been involved in regional wars, more recently with Eritrea to the north. To this effect, Djibouti's port has become Ethiopia's principal trade route. This port is of importance in view of its main trading partners being Saudi Arabia, Germany, Italy and Japan. Indications are that this will change as Ethiopia strives to diversify her trade routes to Somalia and even Kenya and Sudan.

Imports are approximately US $1.2 billion, these being mostly food and live animals, petroleum, chemicals, motor vehicles and aircraft. The main exports are coffee, leather products and gold. However, total exports are only about US $420 million. Other sectors of economic activity include food processing, chemicals, textiles, coffee, oilseeds and grains.

In developing its investment climate, income tax holidays are provided while repatriation of capital is permitted. Ethiopia also offers 100% exemptions on the payment of import duties on capital goods and raw materials. There are exemptions from export taxes as well.

Opportunities for investment include transport and communications, mining and energy, marine resources, tourism, manufacturing industry and to a large extent agriculture (noting here that Ethiopia has been affected by famine for many years).

Oilseeds

Overview

The market dominantly consists of liquid products (90%). Animal products are the main source of fats. Domestically, sales are 60 – 75,000 MT or 1.0 – 1.3 liters/capita with a value of $60 million/year.

Ethiopia exports almost nothing to other COMESA Member States. Oils are primarily consumed domestically, but there is a significant export market of whole sesame to Asia and niger seed to Europe. Total export value is nearly $32 million, but declining recently.

Locally sourced raw materials account for approximately 35% of the total oil supply. The 22,000 - 25,000 MT of domestic oil is derived from approximately 100,000 MT of domestically crushed oilseeds per year. Oilseed production consists of:

- Cotton 2,000 MT and declining
- Groundnut and sunseed very small / negligible
- Simsim/sesame 50,000 MT (40,000 MT exported whole)
- Niger 77,000 MT (65% crushed, 35% exported whole)
- Linseed and rape 40,000 MT.

There are very minimal imports from other COMESA Member States. Approximately 50,000 MT of crude vegetable oil is imported annually, which consists extensively of US soybean oil.

The duties for oil are as follows:

	Crude	Refined Packaged
Import Duties	15%	40%
Sales Tax	12%	12%
Surtax	10%	10%

The installed crushing and refining capacity is 130,000 MT/yr. with around 60% owned by government processors. The big three crushers (Addis-Modjo, Barda & Amaresa) are owned by the government, each with 100 MT/day crushing capacity giving government 300 of 500 MT/day of crushing capacity. Addis-Modjo is the largest with 15,000 MT/year refining capacity, 30,000 crushing and 45,000 solvent extraction; but it is operating at only 30% capacity

Much of the imported oil supply is in the form of packaged refined oils. The lack of bulk handling facilities at the Djibouti port makes importation of bulk oil very expensive.

Opportunities

There is a good international market for niger seed, both for whole and for the whole seed. The oil is popular among high-end users, but the seed is also popular in Europe and the United States as birdseed. Both are viable markets with capacity for growth.

There is definitely potential for increased production of niger seed. Large areas of arable land are theoretically available from the state for the production of additional seed, or additional production of oilseeds could be contracted to the existing farms. International prices for niger and sesame are high, and oilseed production is increasing in response. For sesame, Japan and Korea pay premiums for the whole seed rather than sesame oil, which can also command premium prices in the vegetable oil market. For the domestic market, the decline in livestock herds is leading to a decrease in animal fats, which can be replaced, at least in part, with vegetable fats from oilseed production.

In addition to the market demand and incentives for niger and sesame themselves, it should also be noted that the rotation crops that complement oilseed are pulses, which also have a solid international market. Rotation thus becomes a viable, environmentally sound system for maintaining soil quality while reducing the need for expensive chemical inputs.

Constraints

Working Capital. Most crushers reported that they lack working capital to buy seasonal production and store for year round crushing and sales. The infrastructure (esp. electricity and water) near the available land was also described as very poor. Oilseeds can only be stored for limited periods of time. The domestic transport of oilseeds is very expensive due to the poor road/rail system.

Regional Markets. Niger seed is the most prevalent seed grown, but most COMESA markets do not have a high demand for the seed or its oil, especially among the low-buying-power consumers who comprise the vast bulk of the market.

Except for niger seed, most COMESA members produce the same oilseeds and oils as Ethiopia. With high transport costs, poor infrastructure, and high land costs, Ethiopia appears to have no comparative advantage in most seeds for the regional market. Consequently, most investment is likely to be for domestic consumption or the export market in specialty seeds such as niger and sesame. On the other hand, Ethiopia currently is a net importer of oils, and could thus be attractive to an investor interested in supplying regional oil needs.

Domestic Market. Domestic oilseed prices for sesame and niger seed are high because they compete in the international market, which pays higher prices. Imported oils are cheaper than locally processed high-end oils, so that profit margins for local production of sesame and niger oil are low. At present, the local market tends to support export of specialty seed and import of locally-demanded oils.

Market Size - Cultural Isolation. Ethiopia has no common language or heritage with its COMESA partners, and very limited historical trading history or established trading relations with the region. While these factors are not nearly as important as costs and market considerations, they have an impact on investment decisions for investors looking at various other countries that may have natural ties to a larger market.

Land Cost and Availability. Ethiopia continues to favor state controls at the expense of the market, including state-ownership of all land. Although leasehold land markets function effectively in some countries (such as England), they are based on generations of trust established between the state and private sector, a situation that could be many years away for Ethiopia. As a result, risks are seen as higher, requiring a higher return for foreign or large domestic investors.

In addition, the state's intent of providing stable leasehold rights is undercut by its ongoing system of allocating land and establishing prices. In short, the land rights granted are overpriced. For investors to overcome the high cost of land, together with high transport costs, high import duties, and other economic constraints that increase overall costs, they must be able to produce either very high value products that can command high prices internationally, or receive protection or assistance through protective tariffs or subsidies. This does not bode well for growth or development. Liberalizing land – either through outright sale or through truly market-based sale of leasehold rights – would go a long way toward integrating the country into the world and regional economies.

Information. There is little market information to producers or others in the domestic value chain. In addition, there is no planting seed improvement or extension service support for export crops, only for food security crops.

Subsidized Competition. USAID-supported PL480 vegetable oil distribution (13,000 MT in 2000) does not pay duties and taxes. Although it is supposed to be sold at market prices (if at all), the lack of duties and taxes means that it has an advantage over all other imports and even local production. In other words, PL480 oils sell below market price for comparable oils from other sources. Recipients are reported to sell the oil for cash rather than consume it.

Leather and Leather Products

Overview

Ethiopia, the country with the largest livestock herds in Africa, is one of the leading hides, skins and leather producers and exporters on the continent, with $33 million in exports annually. These products are second only to coffee for total export value. Of the various leather and leather products exported, the country is best known for its sheepskins, which constitute 70% of the hides and skins exported and 80% of the pickled hides.

Ethiopia prohibits the export of raw hides and skins. The predominant export products are thus pickled and wet blue hides and skins. Approximately 60% of goatskins, for example, are sold as wet blue. Most of the exports go to Europe and Asia, with very little to COMESA Member States.

While there is significant production of finished leather, most is consumed domestically, in great part through production of middle-market leather shoes. Leather product exports are quite small (less than 25% of production), and mostly these same shoes. The import duty on raw hides and skins is 10% and on finished leather 30%.

<u>Current Investors</u>

Processors

Armenians started the processing industry in the early 1900s and most were fully integrated through to shoe making. It is still common for leather products companies to be backward integrated into leather production. The State controlled the entire industry from 1974 until 1991, and held numerous trade fairs that developed the reputation of Ethiopian leather products.

Tanners

Output is 40% from four state-owned companies, 30% from 13-14 smaller owner-operated private firms (most of which are less than 6 years old) and 30% from a shareholding firm (controlled by Ali Moody). The state-owned firms are being converted to shareholding companies and then privatized. Four new firms are under development even though there is already processing overcapacity for the local hides and skins supply, especially good quality sheepskins. Only two or three firms have finishing capacity.

Ethiopia Tanneries, Addis Ababa Tannery, Mojo-Adis Tannery, and Combolcha Tannery are all state-owned and being converted to shareholding companies for privatization. Modjo has French technical assistance and Ethiopia Tanneries has a Czech partner.

Awash, Ethiopian Pickling and Tanning and Ethio-Leather Industries (ELICO) and ELICO Universal are all shareholding companies controlled by Ali Moody, which was formed in 1997 to manage privatized firms. ELICO is developing a new tannery for hide finishing.

Batu Tannery is an example of a small tannery that is being formed to support the Kangaroo Shoe Factory that is owned by the same family as Batu.

Leather Products

Second-hand shoe imports are banned so there is no low-cost competition for the domestic leather shoe market. However, the buying power of the domestic market is very low (Ethiopia ranks 208th out of 210 in the world in Purchasing Power Parity). Also, domestic leather is somewhat expensive due to the local operating costs. In the mid to late 90's there were six good shoe factories; this has been reduced to three since the introduction of cheap Chinese shoe imports. Most shoe producers make their products by hand or use sewing machines designed for fabric.

There are currently approximately 14 small companies producing other leather products, mostly focused on high-end Ethiopians and expatriates living in Ethiopia. Some producers include:

- ELICO and Universal are leather products companies controlled by Ali Moody, but their exports are minimal.

- Kangaroo is of a shoe company that is currently in the process of backward integration into leather production to control raw material cost, consistency and quality.

- Jamaica Shoe Factory is a local firm that has some exports and wants to increase export sales.

Raw hides and skins exports are banned so producers for the export market are required to add some value, even if just pickling the hide.

Opportunities

Ethiopia has the best-developed leather and leather products industry in Sub-Saharan Africa, with the possible exception of South Africa. Ethiopian highland sheepskin is internationally recognized as high quality, and is in significant demand. The industry has considerable scale, breadth of product lines, experience, capacity and extensive forward integration. There are a number of trends in Ethiopia that support the development of this industry, such as privatization of the large public sector firms. In addition, UNIDO provides support for effluent treatment plant design and installation.

There are very few domestic market opportunities for finished products due to the low consumer buying power for leather goods and relatively high costs of production. Export has better prospects for new or increased investment. There is potential for tanners to provide leather – rather than just hides and skins – and compete in the export market more effectively by improving quality. The tanning industry is currently operating well below capacity at only 30%, so that increased volume would certainly benefit sector participants. There are several tanneries operating, some with reasonably good technology, and there is a reasonably wide choice of raw materials for processing.

There are also opportunities for providing leather to Kenyan leather products companies and leather products to Kenyan consumers. Better market opportunities exist worldwide. The production of leather uppers has considerable potential, assuming a consistent supply of quality leather. There is also reported to be a shortage of leather from Latin America for upholstery and car seats, giving Ethiopia a window of opportunity to step into this market.

The leather and leather products industry has some advantages for investors. Capital equipment and specialty chemicals can be imported duty free. Finance for export production is readily available. A tax holiday of from 1–5 years is also available as an investment incentive, but such tax holidays are generally not very important to foreign investors, most of whom show minimal if any profits during the first 3-5 years. Export Processing Zones could potentially provide benefits if the leather industry could be clustered there to reduce costs and facilitate exports. Even without such zones, the cost structure for exports is already beneficial because there are no export duties on value-added products.

Ethiopia has another advantage in quality that others in this study did not enjoy to the same degree. Inspection and quarantine stations managed by the Livestock Marketing Authority (LMA) help protect and improve raw material quality. LMA also has a Quality Assurance department and is developing national Quality Assurance programs. All of these benefits provide Ethiopia with regional competitive advantages in skins, hides and leather production.

Constraints

Labor Productivity. There is a current need to upgrade the skill level in the industry. The overall level of tanning technology and marketing skills available does not match up with the high quality sheepskin; that is, better technology and marketing are needed to maximize the value of the raw material. High value-added products export marketing skills also need to be upgraded. Participants have a very minimal understanding of COMESA related opportunities.

Relatively low skills in skin pulling reduce the availability of high quality skins needed to support a profitable leather products industry. Although there are high quality sheepskins (for which Ethiopia has had a good reputation), the percentage is not good enough and could be substantially improved through skills training. Ethiopia could capitalize on its sheepskin reputation as a basis for improving and increasing production.

Domestic Market. The domestic market has very low buying power. Ethiopia ranks 208th out of 210 countries in the world in purchasing power parity so there is a minimal domestic base either for developing an export business or as a market for regional investors.

Locally, the principle leather goods demanded by the market are shoes. Ethiopia prohibits the import of second-hand shoes, which results in a captive market for the mid-range quality shoes produced by the local shoe industry. However, there is high demand for cheaper imported Chinese shoes, which compete very effectively with local products due to price and the wide range of styles appreciated by the market. Price competition from these imports has lowered the price margin for domestic production, even with a 40% import duty. The duty may not be as protective as intended according to some of those interviewed, who believed that under-invoicing and smuggling were being employed to escape the duties.

Export Market. Prices on the world market are generally much better than those offered on the local market because of international demand and purchasing power. For hides and skins, profits can be captured with minimal value-added through pickling or other preliminary preparation. Processing requires greater investment in quality processes to produce the necessary consistency in finished leather, which is currently not being met consistently. Local finished leather is said to be of inconsistent quality and there are problems with batch-to-batch matching, both of which have an effect on price and reputation. In the short-term, this means that it is easier and more profitable simply to invest in intermediate products instead of higher end finished goods or even leathers.

Degradation of Raw Material Supply. A disease in sheep, recent droughts, and poor livestock management practices (parasites) are causing the quality of available sheepskin to deteriorate. The highest grades of sheepskin used to dominate that supply at about 70% in 1990, but today represent only 10%. This dramatically affects profitability for the export market.

Utilization of Existing Capacity. Ethiopia has more tanning and processing capacity than the existing market structure can support. With utilization at only about 50%, this means there are high overhead carrying costs eating into profitability.

Meeting Effluent Standards. Ethiopia is upgrading its environmental standards for effluent treatments for the tanning industry, but at an unrealistic level. Current standards are low and certainly need to be upgraded, but the proposed new requirements are seen as excessive.

Market Responsiveness. Ethiopia has an image problem for high-end finished leather products. Although Ethiopian producers are capable of producing finished products for export, there is little understanding of market demand in terms of style and design. High-end domestic buyers prefer European designs and products, especially for stylish shoes and leather garments, as do potential export markets.

In addition, many shoe components must be imported, a slow process in Ethiopia. This limits the capacity of producers to respond to rapidly changing market demands.

Labor Retrenchment and Inflexibility. As is typical of state-owned production facilities worldwide, existing public firms in the Ethiopian leather industry are overstaffed with under-skilled workers, both in production and management. Although Ethiopia is moving in the right direction by privatizing their holdings, for investors, this currently requires buying out many labor contracts, bringing in new technology, marketing skills and management, and much retraining.

Contracts with labor tend to be on a permanent basis, so that it is very difficult to dismiss workers during economic downturns or changes in the business. As a result, investors reported that they do not significantly increase the number of employees to meet rising demand because they cannot get rid of them when demand goes down.

Drawback Delays and Tax Policy. Although there is much positive in the local leather industry environment due to government policies, there are still significant constraints. One of these is the delays in duty drawbacks. Some investors complained that receiving drawback payments can take six months from the time of application for the payments. This increases the cost of capital, or simply limits capital available for productive investment, both of which affect production and productivity.

In addition, tax policies prohibit the use of loss carry forward from one year to the next. Investors complained that the tax system is administered very arbitrarily and is subject to abuse by tax collectors. To the extent incentives are granted for investors, it is reported that they tend to stay on paper and are very difficult to realize in practice. Red tape and bureaucracy are perceived as very difficult and inconsistent with legislation.

Mandatory Activities. Foreign investors are required to move into high value-added products as a condition for investment approval. This unnecessarily restricts the investor pool to only those likely to succeed in the higher value products, based on bureaucratic assumptions of what investors should be doing instead of allowing investors to respond to what the market demands. There are numerous specialized steps in the value chain. Potential investors with highly competitive expertise in skin preparation, for example, will not be able to invest effectively if they must also add other steps in which they are not specialized. The leather market may support value chain integration, but does not require it.

Bureaucratic Delays. The importation bureaucracy was described as very slow and cumbersome, as is local transport. Together, the delays are so significant that producers must maintain a six-month inventory of imported inputs, which drives up the costs of working capital and overhead. There is also much unnecessary red tape reportedly involved in exporting. Investors said that the bureaucracy suffers from too many low-level arbitrary procedural decisions and a lack of customer oriented focus and practices.

Financing Options. Italian buyers – one of the principle markets for Ethiopian exports – work primarily on a consignment basis. Financing for consignment sales, however, is not offered by the Ethiopian finance industry. This means that exporters must keep capital tied up until the products are sold in Italy, rather than at export, which restricts capital use and raises costs. In addition, Ethiopia has no modern system of collateral lending to support secured transaction financing for equipment, inventory, inputs or any other moveables.

Transport and Other Infrastructure. The domestic transportation system, specifically roads and rail, are quite poor, especially for cross border trade. Ethiopia must rely on Djibouti's port, which is expensive and inefficient. Electrical power supply is unreliable.

Supporting Industries. Locally available packaging material is of poor quality for the export market and import market and is quite expensive. This affects both oilseeds and the leather industries.

Information. Investors felt that was too little information available about foreign or regional markets and market requirements for products that Ethiopia can either produce or export. Currently, there is little focus on the COMESA market at all, with AGOA the main point of focus.

KENYA

For many years, Kenya has been seen as a leading country in the investment development area. It has a population of approximately 28 million people with the country's key natural resources being gold, limestone, rubies and gametes among others. It has had a much more open economy than most other COMESA countries (which had command and somewhat socialist regimes), making Kenya the preferred investment destination.

Gross Domestic Product for 1999 was $39.2 billion. This compares (to other East African countries) with US $18.9 billion for Tanzania and US $16.8 billion for Uganda. Total imports were $2.6 billion against exports of $1.9 billion[1]. The country's main trading partners are Uganda (in COMESA) and Tanzania, UK and the UAE. Sectors of economic activity include:

- Tourism, light industry, agricultural processing, oil refining
- Coffee, corn and tea in the agriculture sector

The Kenyan government has encouraged privatisation and foreign investment. This is supported by the constitution, which prohibits the nationalisation of private property, while the government has ensured that there are no restrictions on the conversion or transfer of capital. Other investment incentives include a 60% tax deduction for building and machinery; duty exemption for materials used in manufacturing; and a liberalised foreign exchange and interest rate system.

Opportunities for further investment exist in industrial machinery, agriculture, leather, mining, construction, fisheries, chemicals and pharmaceuticals and in the hotel industry – Kenya being a relatively well developed tourist destination.

Oilseeds

Overview

Kenya is the only COMESA Member State of the four studied that has any significant regional or cross-border investment. Kenya exports refined oils to neighboring countries and even imports some crude oils from the region for processing. This trade is primarily through sister companies in each location, which capture market efficiencies by sourcing different steps in the value chain based on economies of scale. With an animal feed market, packaging industry, processing and refining capacity, and access to ports, Kenya is well placed to be a regional center for oilseed processing.

The local market is dominantly from hard fats due to the success of Unilever's Kimbo Liquid products (25%). Figures suggest that imports are heavily dominated by imported palm oil (approximately 80%), but import data is biased because figures coming from the

[1] Main exports are tea, coffee and petroleum while imports include machinery and transportation equipment, petroleum products, iron steel, raw materials, food and consumer goods.

Mombassa port do not disaggregate by final destination, and thus include imports bound for Uganda.

The domestic market is approximately 130,000 tons or approximately 4.5 liters/capita. This trend is flat to slightly up. It is estimated that 30,000 tons are exported annually. A modest volume of specialty product exports from Unilever are exported to its sister companies in Uganda and Tanzania. Bidco exports 20% of its production to neighboring countries as well. This export trend for COMESA neighbors is slightly up, primarily due to Bidco's efforts.

The domestic market accounts for a very small percentage of the total supply of locally sourced raw materials. Domestic oil seed production and COMESA sourced raw materials are minimal. It is estimated that 125,000 tons of crude oil are imported almost exclusively from Malaysian and Indonesian in the form of palm oil.

The import duties are in the middle range of those countries studied, with Uganda having lower overall duties and Tanzania and Ethiopia much higher. The duties for Kenya are:

	Crude Oil	Refined Packaged Oil
Import Duty	10%	25%
Declaration Fee	-	2.75%
VAT (food products)	-	-

As in many other neighboring countries, the installed crushing and refining capacity is substantially in excess of demand. Processors include:

- **East Africa Industries/Unilever:** 90% of Unilever's sales are domestic, the remaining 10% are shipped to Uganda, Tanzania and Ethiopia. Most of the transactions are made with sister companies. Despite the success of this facility, it has considerable excess capacity.
- **Bidco**: Bidco uses 80% imported oil, 5% from COMESA countries. Bidco exports 20% of production, all to COMESA countries. Management stated that it hopes to double COMESA exports (to 40% of production). Bidco is negotiating on a palm oil plantation and processing facility in Uganda. Market expansion targets for investment are South Africa, Nigeria and Egypt due to the size of their populations.

The market access to those countries will be based on logistics, and raw material access.

Opportunities

Full enforcement of COMESA rules would allow Kenyan firms to more fully utilize their production capacity since they have some of the best facilities in the region. Removing internal export and import duties for raw materials through finished, packaged products in favor of a single duty on non-COMESA imports would lower consumer prices while increasing potential profit margins and competitiveness against import goods. However, very little of the raw material is COMESA origin.

Kenya's animal feed market is the only one in the region capable of absorbing large quantities of meal, i.e. supporting a significant quantity of crushing. Kenya's packaging industry is the most developed in the region. Kenya thus has an advantage for obtaining higher value from oilseed by having a market for meal as a byproduct and for more efficient value chain operations without excessive transportation between steps in the chain. Oilseed and crude oil could be produced in neighboring countries that have the raw material and shipped to Kenya for processing to final packaged product.

Constraints

Market Size. Although Kenya has a feed industry that can absorb some of the meal from crushed seed, it is not large enough to utilize all of the meal from current or increased production. Increases in dairy and poultry production together with lower transport costs to a wider market would permit better cost recovery and higher value for the raw seeds.

Information. The lack of a commodity exchange makes it difficult to hedge raw material costs, match buyers and sellers, and balance supply with demand. This lowers the incentives for a regional approach because investors are unable to lower or control their risks within acceptable limits.

Consumer Purchasing Power. Most consumers in Kenya (and the COMESA region) are only able to purchase small amounts for daily consumption. This requires small packages, raising the packaging costs per liter. Larger packages are potentially more profitable and less expensive for consumers on a per liter basis.

Transport Costs and Infrastucture. Cross border freight costs are high due to poor roads, vehicle costs and maintenance, and limited hauler competition. It costs $40/MT to transport a ton of oil from Malaysia to Mombassa, $50/MT from Mombassa to Nairobi and $90 - $130/MT from Mombassa to Kampala. Moving products from Mombassa to Nairobi is also very time consuming and administratively costly.

The impact of the poor infrastructure and other transport costs is that investors cannot capture the economies of scale that would be available with investment in a central location used to service a larger, unified market. Instead, they need to produce on a smaller scale within each of the segmented smaller markets.

Duties. Tanzania assigns a 20% duty to Kenyan vegetable oil imports even though both countries are members of the EAC. This duty is inconsistent with EAC rules and results in higher prices to consumers (which reduces the overall market size) and lower profitability.

Leather and Leather Products

Overview

Kenya has a modest market size for leather products, but nonetheless it is the largest East African market and includes cross-border purchases of raw materials. Very few of Kenyan leather products are sold in COMESA member states, however. Outside of COMESA, products are sold primarily at low end as lower quality hides and skins in the major markets such as Pakistan, Italy, and Hong Kong.

Approximately 2.4 million hides and 3.7 million skins (1.7 million sheep plus 2.0 million goat) are pulled annually. Around 2.3 million hides are collected. Most Kenyan tanners have a buying office in neighboring COMESA countries and integrate that product with Kenyan hides and skins. There are some imports from inland neighbors

Most leather tanneries are not operating. Tanners include:

- Leather Industries/Industrial Promotion Services (IPC) / Agah Khan Industries: IPC's leather is sold 20% to Kenya and 80% exported, mostly to Italy for shoe making. Most of their raw material supply is from Kenya with a few imports coming from sister companies in the region. They suffer from a shortage of hides due to what they can afford to pay and the fact that the export duty on raw hides is only 2%.

- Bully's: Once a major regional tanner, Bully's has contracted significantly in recent years. Due to the demise of the local and regional shoe industry it is currently dominantly a producer and exporter of wet blue hides for non-COMESA markets.

The largest local demand for leather products is in shoes. However, few local producers can compete effectively with second-hand shoe imports. Thus, only a few manufacturers are operating. These include Bata Shoe Company and Leather Masters. These are able to supply niche markets but are operating below capacity.

Traders are more plentiful than manufacturers and are focused on the non-COMESA export market for both Kenyan and regional supplies of hides and skins. Of these, Abdulwadood is representative of the market. They export 100% of their purchases, with raw material coming both from Kenya (20%) and Uganda and Tanzania (80%). Their export markets are Italy and Pakistan.

Opportunities

There is a strong export market for hides produced in the region. However, the prices captured are inferior due to several problems that could be remedied with reasonable investments by the private sector, the public sector, or a combination of the two working in partnership.

First, a regional approach to quality improvement of hides and skins is needed. Much value is lost due to poor production practices in pulling and preparation of hides and skins, which could be captured through training producers in better techniques and even better animal care. Second, hides and skins are not properly graded and separated according to grade. The mixed lots of various qualities tend to sell at the price of the lowest quality, so that higher end products are not receiving full value and do not justify the additional work needed to produce higher quality. This simple step would do much to rationalize pricing and incentive structures. Grading and separation at the source would help link price to production and capture full value for the export market and to transfer market information regarding export standards back to the producers.

This export market already exists and is strong. Investment in this aspect will bring immediate returns. The market for value-added leather products is more complicated and limited, with few opportunities currently for significant investment.

Constraints

<u>Labor Productivity</u>. Lower labor costs should provide Kenya with a competitive advantage for some export products, but leather-processing technology is weak and does not generally meet international standards for finished products. Without improved productivity, Kenyan products will be limited to lower end, lower return product markets.

In addition, there are serious skill deficiency problems in export marketing and leather products design. Hides and skins protection on the animal and green hides and skins handling is poor, e.g., improper hand flaying, parasites, thorns, branding, barbed wire, improper drying and salting, etc. This results in low quality raw hides and lower prices paid for those hides.

<u>Market for Shoes</u>. Although the shoe market covers the entire Kenyan population, buying power is low so that the highest demand is for low cost shoes. This demand is generally met by second-hand imported shoes, which consumers consider to be better value than new shoes produced by Kenyan or regional producers. Without raising the cost of all shoes through imposition of protective import tariffs, Kenyan producers must be able to bring down production costs and increase quality to compete with imports.

<u>Quality Control in the Context of International Prices</u>. The export price for wet blue hides has decreased nearly 50% over the last 5 years. In order to capture higher value in such a market, it is imperative that producers improve their animal care and pulling practices, and that exporters ensure proper grading and classification prior to export. Much potential value is being lost that can be even in the context of reduced prices.

This can be clearly seen in the example of goatskins. Kenya is able to produce the same quality of goatskin as Nigeria, but weak quality control and inconsistent grading result in lower prices paid to Kenyan exporters. Nigerian goat skins sell for the equivalent of 650 Kenyan shillings, while Kenyan skins capture only 80 Kenyan shillings.

Costs of Capital. The high cost of capital (30% annually) reduces profitability of tanning, which requires four months of working capital. Hides and skins require only a few days, giving them a competitive advantage for return on investment. Comparatively then, exporting hides and skins will attract more investment than tanning, which requires more labor and more costly inputs.

Market for Scraps. To be able to pay the maximum price for a hide the tanner needs a market for scraps and low-grade leather. These are not available in Kenya or COMESA.

Infrastructure Costs. There are currently severe electrical power supply problems reducing the ability of producers to work consistently, predictably and effectively without investing in their own power generation, which is an expensive solution. In addition, transport costs within the region are reported to be unnecessarily high due to lack of competition, poor road quality, and unnecessary delays and fees at the borders. Communications systems are also increasingly poor and more expensive due to deterioration of the Kenyan telephone system.

Information. Kenyan producers and exporters have little access to and understanding of the export market for which they could be producing more profitably. Improved export marketing skills and information dissemination through leather producer associations would help producers to capture value more effectively.

Supply versus Demand for Production. Hide processing capacity is 4.5 million, primarily due to the former ban on raw hide exports and a 20% rebate on exports, while the Kenyan raw material supply is only 2.4 million hides. Imports from neighbors will be required to utilize the excess capacity.

Regional tariffs. Tariffs between neighboring states is lowering the overall price to producers. Kenya is in a position to be a center for leather exports and productions based on national and regional leather supply, but profitability is negatively affected by the tariff structure, so that money which could go to producers or others along the value chain must be used to pay duties between COMESA members. A single, external tariff would benefit producers in all countries and at all levels of the value chain.

Input Costs and Duties. The landed cost of imported tanning chemicals is very expensive. Although duty drawbacks are available (15%), investors complained that the process is unnecessarily slow and complicated. These delays subject the importer to finance charges on working capital at 30% and drive up the costs of production. If Kenya wants to support the growth of the leather and leather products industry as it competes with the international market place, duties on inputs should be reduced or eliminated.

Foreign Competition in Tanning. Asian tanning competitors (especially China and India) have a cheap and skilled labor supply, domestic leather products producers/exporters as buyers, and a local supply of accessories for leather products. Foreign tanners' customers can often access export subsidies on finished products so they can pay a higher price for leather. The foreign tanners' operating environment is often much better, especially as related to a reliable power supply. On the positive side, this results in higher potential prices for Kenyan skins in the export market, but, on the negative side, means that Kenyan tanners cannot compete as effectively for a larger share of the market for tanned hides and finished goods.

MALAWI

In the last decade, Malawi has made great strides in improving macroeconomic management and creating an enabling environment for investment and trade. With the exception of petroleum, sugar, maize, and some infrastructure services, prices have been completely deregulated, allowing producers to sell goods based on the market rules. The 1994 Investor Roadmap recommended that all prices be liberalized, and since then, fertilizer, spare parts for motor vehicles, and agricultural produce prices have been freed.

Similarly, the trade regime, including licensing for imports and exports, has been significantly liberalized in recent years, making Malawi a more open commercial environment. It is now easier and cheaper for Malawian firms to import needed capital equipment, machinery, and certain raw materials than it was in 1994. The country's exports have increased consistently in recent years, and the overall volume of trade has also improved. The total volume of trade has increased since 1997, with exports valued at US $476.3 million and imports totaling US $776 million in fiscal year 1998-99. Real GDP growth since 1997 has been positive, fluctuating between 3.3% and 5.2%. The Reserve Bank of Malawi projected the country's GDP to grow at a rate of 3.5% in 2000.

Malawi remains a politically and socially stable democracy in a region where several other states are embroiled in wars or ailing under autocratic regimes. Although investors report some skill shortages, the World Bank notes that Malawi's professionals and many government officials are well-educated by world standards.

Yet several obstacles to increased investment and sustained economic growth remain. Malawi is a small landlocked country with modest natural resources. Unlike many of its neighbors, Malawi lacks significant commercial mineral resources and it lags behind its larger neighbors in its ability to attract tourists. Malawi remains dependent on the agricultural sector for the bulk of the country's GDP, foreign exchange earnings, and employment. The majority of Malawi's citizens derive most of their income from the agricultural sector, which accounts for almost half of Malawi's GDP and an estimated 85% of the country's employment.

Malawi's overall macro-economic situation presents a mixed picture for would-be investors. Several major macro-economic impediments to continued growth include Malawi's consistent inflation problems, periodic foreign exchange shortages, and high transportation and communication costs. Malawi has long suffered problems with inflation, and a 1998 Kwacha currency devaluation slowed economic growth. Despite efforts to stabilize the value of the Kwacha, the Reserve Bank of Malawi estimates that the average 1999 inflation rate was 44.7% compared to 29.8% the previous year. The domestic prime lending and saving rates are high by international standards, hovering around 47% and 30% respectively, in 1993.

Although nearly all restrictions on the transfer of currency have been lifted, some investors note that fledging banking sector is not always able to meet demand for hard currency, especially during times of the year where revenue from agriculture cyclically declines. The GoM also has periodic problems getting sufficient access to foreign exchange. Because most machinery, parts and construction materials are imported, the agencies that are tasked with developing the country, such as the Municipal Water Boards and ESCOM, sometimes are stymied in their efforts due to a lack of foreign exchange to cover the cost of imports.

The country's under-developed infrastructure raises the cost of doing business. Transportation and other infrastructure costs continue to make Malawian business less competitive than firms in neighboring countries. Most of Malawi's imports and exports are shipped over long and often poor quality highways through such ports as Maputo and Dar-es-Salaam. The region's rail links, although being revitalized, remain expensive, as service is somewhat limited. Air transport, although reliable in Malawi, is generally more expensive than other modes of shipping. By international standards, Malawi's communications infrastructure also remains expensive and of poor quality. Telephone service suffers more than occasional interruptions, and internet usage is limited. Power supply is also below world standards both in terms of quality of and availability of service. Power fluctuations and outages are somewhat common, especially in non-urban areas, and most major firms purchase backup generators and regulators to protect equipment and keep their production lines operational. Due to the fragile nature of some infrastructure and the country's periodic weather extremes, torrential rains often cause power outages, cuts in telephone service, and damage road networks.

Malawi has begun to prepare some of its major parastatals, including the Malawi Telecommunications and Post Corporation (MTPC) and the Electricity Supply Commission of Malawi (ESCOM), for privatization. The Nacala Railway, linking several destinations in Malawi to the seaport in Dar-es-Salaam, has begun to be rehabilitated. The possibility of making the Shire River navigable, thereby giving Malawi access to the Indian Ocean via Mozambique, is also being explored.

Other problems constrain business expansion and investment growth as well. Purchasing power remains low, discouraging some investors who require healthy stakes in the domestic market. Indeed, the latest available estimates from the U.S government suggest that only 12% of the Malawian workforce derive incomes from the formal sector and the country's GDP per capital is US $200. In addition, Malawi is also increasingly facing shortages of certain qualified employees. Competition for the most skilled and best-educated Malawian managers and professionals can be intense, and in recent years the scourge of HIV/AIDS has taken a toll on Malawi's urban and well-educated population. According to Malawi's National AIDS Secretariat, nearly 1 million Malawians, or 15% of the adult population, are living with the terminal disease.

Finally, of direct interest to this analysis, bureaucracy, slow decision making in government and perceived risk were noted as deterrents to new private investment. This research and other data suggest that the GoM retains too much direct control over the economy, particularly in the area of infrastructure services. While many policy statements have communicated the desire to open up the economy to participation by both the foreign and domestic private sector at the level of implementation, government officials are reported to often take contradictory measures that create a confusing and in some cases unsympathetic regulatory environment. Further, some observers suggest that the government has not yet demonstrated the political will to curb corruption and implement meaningful reforms.

Textiles and Garments

Malawi's textile sector remains pre-dominantly small and only contributing a small share to the GDP. Though Malawi grows its own cotton, there is only one spinning company, David Whitehead & Sons. Other companies in the sector mainly deal in garments with a few operating under the Export Processing Zone (EPZ) scheme. However, their raw materials for fabrics and accessories are largely imported from the Far East in Asia. The market has been restricted to the domestic market and the South African market, where there is a bilateral agreement allowing duty free access.

Opinions were mixed, but it is assumed that the increase in second-hand clothing on the domestic market has caused a decline in the garments manufactured for the domestic market for small-scale garment manufacturers.

Cotton Growing

The Agricultural Development and Marketing Company (ADMARC), the leading agricultural producer in the country, mainly grows cotton. This raw cotton is sold to the ginners, David Whitehead & Sons, who consume approximately one-third of the cotton crop in the country.

External Trade: - Cotton (Quantity and Value of Domestic Export Commodities)

R	NES (‘000)	UE (MK’000)
[illegible]		500
[illegible]		600
[illegible]		800
[illegible]		000

Source: National Statistical Office, Malawi Monthly Statistical Bulletin (Dec. 1999)

Spinning

Only David Whitehead & Sons Limited is involved in spinning their cotton. The sold cotton that is spun is distributed as follows:

- 70% exports to UK, Namibia, Botswana, RSA and sometimes to Mozambique (through agents).
- 30% domestic market divided with half going to retail shops and the other half to clothing shops who make garments.

Weavers and Garment Manufacturers

In terms of the textiles value chain, this category comprises the bulk of the manufacturers. Most companies import the fabrics from the Far East and to some extent South Africa and Zimbabwe. This is followed by printing and production of garments. Only small proportions of these garments are sold domestically.

Manufacturers export their products to South Africa. Malawi has a bilateral trade agreement with South Africa, which allows for duty free access. It has been argued by these companies that COMESA countries do not have a textile market. It was reasoned that this is because countries in the region have their own textile industries to saturate the market while cheap fabrics and garments from the Far East also make their products uncompetitive.

Second-Hand Clothing Traders

Second-hand clothes (also called 'Kaunjika') constitute an important category of textile imports. The following extract from USAID/SD Publication Series Technical Paper No. 90 of September 1998 entitled 'Unrecorded Cross Border Trade Between Malawi and Neighboring Countries' provides an indication of the magnitude of trade in this sub-sector monitored in a study carried out in 1996.

> *Valued at US $10.2 million, the second-hand clothes contributed (in 1996) two-thirds (67%) of the value of all of Malawi's one-third (34%) of total imports. Although Malawi also exported second-hand clothes during the same period to Mozambique worth US $1.2 million, it was a net importer to the tune of US $9.0 million. Zambia was the most important source of these clothes, providing 86% of all imports valued at US $8.8 million, followed by Tanzania's exports of US $1.3 million (12%) and a tiny amount from Mozambique worth US $182,000 (2%).*

New Investments in the Textile Sector

According to the Malawi Investment Promotion Agency (MIPA) investor-tracking system, so far investment of about US $44.4 million has been attracted to Malawi during the 1999/2000 financial year. At least five (5) manufacturing companies have been located in Export Processing Zones (EPZs). These are mainly textiles manufacturing companies that have managed to generate employment for over 400 Malawians.[1]

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[1] Republic of Malawi, Budget Statement – 30th June 2000 read by the Minister of Finance and Economic Planning. Page 17

However three (3) other companies have closed over the last year. Reasons given for this included the declining market and competition of products from the Far East.

Key Sector Opportunities

The domestic market has been overcome by the cheaper second-hand clothing and imports from the Far East. Local textiles manufacturers are unable to produce at prices competitive enough (and of matching quality) to stand against these imports. Thus the Malawian textiles sector has now focused towards the export market, not including COMESA. The COMESA market is considered limited and therefore not a main focus area for the Malawian textile producers.

Despite the launch of the Free Trade Area (FTA), the FTA has had little impact for increasing trade and investment for two main reasons:

(i) Any raw material imported for purposes of exporting the finished product is given duty free status under the EPZ scheme, irrespective of the source, i.e. whether COMESA or non-COMESA.

(ii) Final products such as garments that are exported to RSA receive duty free status under the bilateral trade agreement. Therefore, the duty free treatment recently launched under COMESA as an incentive was already in existence with RSA where there is already an established market.

The challenge is therefore to produce quality products that can compete with textiles and garments that are being imported into COMESA countries. However, there is need to carry out market research to determine possible options for alternative outlets. Currently, most companies interviewed believe there is no major market in COMESA but have not actually researched into it. The argument is that each country has its own textile industry, which too is facing Asian competition, hence a saturated market.

For the spinners, it is important to continuously improve their technology if they are to produce efficiently. While recent upgrades have more than doubled production, more still needs to be done. In addition, timely delivery of the fabric is essential as garment producers that have tried to source locally have been disappointed.

The Africa Growth Opportunities Act (AGOA) is seen for many to be a positive export opportunity for African textile producers to supply the American market. While this may be so, capacities and quality require improvement to be able to meet U.S standards.

Key Sector Constraints

Operating Constraints

- The majority of the Malawian population has a low purchasing power which has increased the supply of cheaper second-hand clothing, which many feel has killed the garments market for the local textile dealers.

- Fabrics from India and the Far East imported into Malawi tend to be cheaper than that supplied by the local textile spinning company. The local fabrics are uncompetitive in pricing, largely arising from the high production costs.

- The capital investment necessary for new and modern spinning plant or expansion equipment is very high, making it difficult to acquire more modern and efficient machinery. A startup business for spinning without a domestic or regional market does not make such an investment feasible.

- Despite the availability of cotton locally, fabric and accessories such as buttons, threads, etc., are not sourced locally by weavers. Imported fabric is cheaper while the accessories are not manufactured in Malawi, including thread (most of these come from India, the Far East, Zimbabwe and South Africa).

- Though there is a Textiles and Garments Association, a lot more advocacy is required to strengthen the textiles sector.

Policy Constraints

- The Agricultural Development and Marketing Company (ADMARC) who are the main supplier of cotton, must work out a pricing mechanism that will allow local textile business houses to buy their raw material at more competitive prices. The status quo does not encourage sourcing raw cotton on the domestic market.

- The Reserve Bank of Malawi (RBM) needs to work out a system for allocating and accessing foreign exchange particularly for trade involving Zimbabwe. There are forex restrictions in Zimbabwe, which does not enable one to be paid in a convertible currency such as the US Dollar when you sell a product to that country. Though Zimbabwe is currently a relatively small market compared to RSA, it does not provide an incentive to expand production for that market.

- Credit facilities at concessionary rates need to be made available if the sector is to expand. While a number of textile industries have been given EPZ status, there seems to be no incentive for the domestic focused industries, especially if they are to compete against second-hand clothing.

- In order to qualify under the Rules of Origin (RoO) for both the RSA and

COMESA markets, some companies are reported to increase their workers' wages in addition to using local polybags. While they may qualify under the RoO, this may appear to authorities as though local producers provide 25% local content in terms of actual materials. Hence, government must be cautious of the real content value of such exports.

- A depreciation of the Malawian Kwacha against the US Dollar reduces the value of the local content in Dollar terms. This is a major constraint for most manufacturers as the Malawian Kwacha has depreciated by over 50% in the last year.

- Exporters to South Africa reported that South Africa's newly introduced Dumping Duty of 36% is against the bilateral trade agreement since it is an indirect introduction of duty.

Iron And Steel Sector

Sector Profile

The Malawian economy depends on imported raw steel, as it does not produce steel locally. Zimbabwe and South Africa are the only steel makers in the Southern African region. The steel related industries in Malawi dominantly deal in metal bashing/ engineering and includes the following:

-Buses
-Farm implements
-Coils and plates
-Roofing sheets
-Nails, wires and other hardware.

PEW, a bus manufacturer, manufactures various bus types for the home market as well as exports to Zimbabwe, Zambia, Tanzania and Mozambique. Efforts to enter the Kenyan market have proved difficult as the government imposes too many taxes as a means of protecting the local bus industry. Further, there are plans to start modular steel housing in Mozambique. Beyond this, there are no immediate plans to export outside the stated Southern African region.

For Malawian steel related producers, raw materials imported from Zimbabwe and South Africa adds to the production cost significantly due to the distance from source and consequently transport expenses. This therefore, alongside other cost factors such as taxes make the local products uncompetitive compared to imports from Zimbabwe (in COMESA) and, South Africa and Asia (outside COMESA).

Industries involved in agro implements also source raw steel from scrap metal available locally, or sometimes from Zimbabwe.

Key Sector Opportunities

- There is potential to increase sales in hardware products in view of construction works taking place in Lilongwe and Blantyre.

- Agro equipment suppliers are seeking exemption on duty for their raw materials as an incentive and means of offering competitive prices to the farming community. Currently primary agriculture inputs attract zero duty and it is felt this could be extended to raw materials imported for the manufacture of agro equipment.

- Malawi has deposits of coal, which is essential to steel manufacturing, that could support local production of steel.

- There is potential for increased bus sales in the COMESA region as there are few manufacturers of buses.

- Zambia has demand for long distance luxury coaches that can be exploited with improved quality. There are also plans to go into joint venture operations in Zambia.

- Uganda too has a market for modern buses. There are considerations to get dealerships arrangements where up-market bus manufacturers supply the chassis and PEW builds the Bus tops.

- The war torn countries in the region will require considerable amounts of steel products once they begin to reconstruct their damaged infrastructure.

- In view of the high production costs, there is little focus for marketing products that would be competitive both in price and quality in non-COMESA countries, particularly the more developed nations.

Key Sector Constraints

Operating

- Transport costs to get to far out sources of raw materials is one of the major obstacles to producing both cheaply and timely.

- Cost of raw materials from local suppliers is usually highly inflated making it cheaper to import finished products than opting to go into manufacturing.

- There is no export assistance in terms of credit facilities for expansion.

- The minimum investment for a competitive steel engineering operation is quite large and acquiring new machinery that would operate more efficiently is not an immediate option for a number of manufacturers.

- There are limited bonded warehouses in both Malawi and other countries in the region. This is therefore a major setback for bulk manufacturers.

Policy

- The government tax systems are complex and high which adds to administrative paper work and bureaucracy and subsequently loss of productive time.

- Currency devaluations have shown true market prices of products that have ultimately affected business profits downward. In order to maintain a fair margin on sales, costs of imports paid for in US Dollars must be converted into the local currency that in turn means increasing the sales price. However doing so could entail out pricing product against the cheaper imported finished products.

- The lack of foreign exchange at home and with trading partners regionally has hindered increased dealings. For instance, importers in Zimbabwe are unable to pay their Malawian (and other) suppliers in hard currencies such as the US Dollar as it is unavailable in the commercial banks.

- Axle load limits and vehicle widths have not been harmonized and thus, without common regulations regionally, specifications for export products to different countries must constantly be adjusted.

- There is a gray area on the awareness of COMESA programs that could be useful such as the ongoing Road Harmonization.

- The Private sector has lamented their lack of participation and inclusion in national and regional matters that ultimately affect their economies.

MAURITIUS

Mauritius is one of the region's leading investment destinations. It has a well-developed industrial sector offering, inter alia, Exporting Processing Zones (EPZs) and a booming tourist sector. Located in the Indian Ocean on the east of Southern Africa, Mauritius has a population of 2 million, with both English and French as the main languages.

The country's GDP is among the highest in the region at US $11.7 billion. Total exports (mainly textiles, sugar and light manufactured goods) as at 1999 were approximately US $1.5 billion while imports were US $ 1.9 billion. The country's main imports are manufactured goods, capital equipment, food stuffs, petroleum products and chemicals. Core economic activity lays in agriculture and tourism – largely in sugarcane, tea, textiles, food processing (including beef) and tourist services.

Mauritius, besides being a member of the COMESA Free Trade Area, allows 100% foreign capital investment and repatriation of profits as well as exemption from tariffs and sales taxes, according to type of activity. The Mauritius Industrial Expansion Act of 1993 allows for privileges to be obtained under classification of:

- Export Enterprises
- Pioneer status enterprises
- Modernisation and expansion scheme
- Small and medium enterprise
- Industrial building
- Agricultural Development and Hotel management.

Further opportunities for investment are available in agricultural equipment, irrigation, agro-food, mining, manufacturing and tourism services.

Textiles

Overview

Companies in the Export Processing Zone (EPZ) dominate manufacturing in Mauritius. Since the 1970s, textiles have been the mainstay of industry. However, with other developing countries beginning to compete for textile contacts, efforts are underway to modernize and diversify production. The focus of the Mauritius textile industry is moving increasingly towards high quality fashion garments, while there has been a tendency for Mauritian companies involved in mass production to relocate to countries with lower labor costs (such as Mozambique and Madagascar).

Opportunities

AGOA has presented opportunities for Mauritian investors to expand their operations to serve the US marketplace. However, most of these investment opportunities exist in offshore investments in such countries as Madagascar and Mozambique. Smaller manufacturers do not produce the quantities sufficient to meet buyers' needs and cannot reasonably expand their facilities in Mauritius due to the lack of available workers. Most interviewees suggested that if they intend to pursue contracts that would qualify under AGOA, it would most likely be through facilities in Madagascar.

Opportunities do exist to sell goods into the COMESA market, and many manufacturers are moving towards exploring the Member States marketplaces particularly with the elimination of tariffs. Many of the manufacturers interviewed felt that they could price compete with low cost Asian garments and South African goods in the COMESA marketplaces.

Mauritius's income level is such that they will not receive the preferential AGOA package that would allow them to assemble clothing from Asian and European textiles. There are possibilities of importing raw materials from Zimbabwe and Kenya, which would allow Mauritian goods to be sold directly into the USA under AGOA. However, as mentioned earlier, most of the investment in capacity will come in countries such as Madagascar and Mauritius that are below the income threshold for preferential treatment.

Mauritius does have some textile manufacturing capacity to produce textiles for manufacturing in Kenya and Zimbabwe (countries which will also serve the AGOA marketplaces from local and foreign investment.)

Constraints

Labor: Mauritius's biggest constraints lie in its inability to expand its manufacturing capacities due to the lack of available semi-skilled and skilled workers in Mauritius. This constraint has led Mauritian investors to seek opportunities in Madagascar and, to a lesser extent, Mozambique. Mauritian investors cited a preference for Madagascar in its proximity, willingness of the government to accommodate Mauritian investors, and common language.

This constraint does not prevent Mauritius to grow. It dictates, however, the type of growth that Mauritian firms are likely to undergo. Mauritius is looking towards higher value industries and away from the labor-intensive products such as garments. In this respect, these constraints are to the benefits of Mauritius' neighbors and COMESA as a whole.

Local Markets and Used Clothing: The presence of used clothing in the local COMESA marketplaces makes even the low cost goods manufactured by efficient Mauritian manufacturers on the higher end of the marketplace. Zambia and Malawi in particular have gone from highly protected marketplaces that hosted large clothing industries to open markets with a large presence of used clothing.

Distribution Networks: Many of the COMESA Member States lack very strong distribution networks. The best networks that exist for clothing are informal and are largely made up of used clothing and imports from the Far East. Formal networks tend to be owned and operated by South African firms that buy goods exclusively from South African manufacturers. Most Mauritian manufacturers interviewed suggested interest but didn't know where to begin to reach the marketplaces.

Information. There is a great void of information on marketplaces in COMESA, particularly for markets in Congo, Rwanda, Burundi, and others. Mauritian investors do look for information, but MEDIA (now restructured to have a separate Board of Investment) traditionally did not provide much information on African countries with the exception of South Africa.

Steel and Steel Products

Overview

Mauritius's steel and steel products market is highly limited due to the absence of raw materials and its distance from export markets. For the most part, the Mauritius steel products industry has served the local market, which is a market that is continuing to grow and become more sophisticated. There are light exports to neighboring states.

Opportunities

Mauritian firms interviewed did not anticipate major opportunities in COMESA Member States despite the presence of the duty free trading. One manufacturer involved in the manufacture of space frames felt that there is opportunity to participate in COMESA States tenders for large buildings.

Constraints

Lack of Raw Materials: Mauritius must import its raw materials for all steel and steel products. There are no steel mills on the island, and most imports are for the purposes of local consumption. Its distance to major markets and lack of skilled labor make it unlikely that Mauritius can become a strong player simply adding value.

NAMIBIA

Background

Due to historic ties and the South Africa Customs Union, the Namibian economy is still largely influenced and dependent on the South African economy. It is as a result closely linked to South Africa in terms of trade and investment.

Namibia has a total area of 825,418 square metres with a population of only 1.6 million, and a life expectancy of 59 years. Its density per square metre is 2 as at 1997 compared to Mauritius, which stood at 538. Its Gross Domestic Product (at current market prices) in 1998 was US$3,159 million.

As at 1998 Namibia exported US$16 million to COMESA countries, which constituted only 0.76% of total COMESA exports. It imported US$48 million from COMESA countries (2.3% of total COMESA imports) bringing intra-COMESA trade to US$64 million as compared to only US$11 million: 1991 and US$40 million: 1995. The key sectors are mining industry and oil industry. Namibia's main export commodities to COMESA include copper, cut diamond, gemstones, granite, lead products, marble, uranium and zinc. Namibia's main import commodities include petroleum products, pharmaceuticals, plastic products, rubber, spare parts, textiles and knitwear and timber.

The manufacturing industry in Namibia is small and focuses on food processing and beverages. The majority of manufactured goods are imported and the government hopes to promote manufactured exports through an export processing zone in Walvis Bay that offers tax incentives to investors.

Barriers to Trade and Investment

The following were identified as barriers to trade and investment:

- Transport and logistics – given the location of Namibia and its links with other COMESA countries, the transport and logistics were found to be a major barrier to trade and investment, particularly for landlocked Windhoek. Although a commercially run Infrastructure Fund leveraged by funds from abroad, such as the EU and China, could be helpful, there would still be a need for other economic activities along these routes to justify this investment and the potential in DR Congo would have to be unlocked.

- Goods too expensive for COMESA market – this was said to be particularly the case for the high safety clothing (textiles) and precision marking instruments (steel) whose market is Europe and USA. The establishment of the safety-clothing factory in Namibia had interesting dimensions, as with the firm with high technology precision parts marking machines. One had been set up purely for historic reasons as the investor having historic links (through the training of German soldiers during the

Second World War). The second one was a case of a highly trained specialist touring Namibia and "falling in love" with the scenery of Namibia resulting in him setting up shop. The ways and means of attracting foreign investment in COMESA need to be broadened and innovative ways introduced. One such way that could have a spillover in examining the non-orthodox ways that influence investment flows like riding the crest of tourism, making countries through flora and fauna, creating development corridors in the midst of the African jungle etc.

- Need for good information and reputable dealers – The companies indicated that they do not yet have good contacts with reputable dealers in COMESA and are concerned about losses with "fly by night dealers". They reported a lack of information about the COMESA markets and players in those markets.

- Proximity – The only air-link is to RSA. The other air links are chartered.

- Limited market - There is a limited market for products, and usually customers from DRC and Zambia do their shopping in Namibia, reducing the immediate need to have a presence in these markets. Most of the companies were however observed to be small family concerns with growth constraints.

- High transport cost inhibit exports – Although this was found to be true, the major constraint seemed to emanate from lack of capacity rather than transport.

- Un-competitive labour as well as lack of skilled and trained people – this was said to be the case in textile companies although these companies seemed to be more into tailoring rather than manufacturing per se.

- Dumping from RSA – this is a contentious issue, which was found to be difficult to assess. "Dumping" is used to describe the fact that South African manufacturers can sell at lower prices than many Namibian companies. In fact, this may be due to economies of scale that allow South Africa to produce at a lower cost, instead of any unfair trade practices.

TANZANIA

Tanzania is a former member of the Common Market for Eastern Southern Africa (COMESA), from which it withdrew in September 2000. Prior to this date, Tanzania participated actively in the COMESA programmes and had reduced its preferential tariff rates offering 80% reduction for COMESA products. It is however still a member of the East Africa Co-operation (EAC) and the Southern African Development Community (SADC).

Tanzania has a population of 31 million people and until the second half of the 1980s; the country was a pro-socialist economy under the former President, the late Dr Nyerere. The country offers a key port for goods through Dar-es-salaam for several regional countries, particularly landlocked states such as Zambia. Main trading partners are Kenya, UK, Japan, Germany and the Middle East. It is however a net importer with US $1.6 billion of imports (mainly manufactured goods, machinery, transportation equipment, crude oil and foodstuffs) against US $0.7 billion worth of exports (mainly coffee, cotton, tobacco, tea cashewnuts and sisal). Gross Domestic Product stands at US $18.9 billion.

For investors, repatriation of capital is permitted and taxation on capital gains income is 20%. Foreign incorporated companies must, however, be registered with the companies registry. Other incentives include exemption from sales tax, tax remission for an initial period of five years and exemption from import duties on key products approved by government authorities.

The country has investment opportunities in telecommunication equipment, computer software, tourism services, agricultural machinery and equipment, construction equipment, computers and peripherals.

Oil Seed

<u>Overview</u>

In Tanzania, the oilseed sector is dominantly liquid products (75-80%), typically from imported palm oil (approximately 70%). Sales approximate 100,000 metric tons, or approximately 3.1 liters/capita worth approximately US$14 million per year. The trend is slightly upwards. Tanzania exports almost no oilseeds or derivative products to Member States. Non-COMESA exports are also very small, and the trend is declining. For the most part, domestic oilseed production is consumed by the domestic market.

Approximately 30% of domestic sales are sourced from local raw materials. Oilseed production has ranged from 213,000 metric tons to 358,000 for the last five years. The breakdown by type of oilseed is as follows:

- Cotton – 60 to 65%

- Groundnut – 20%
- Simsim – 10%
- Sun seed – 6%

Import duties range from 25 % on crude oil to 45% on refined packaged oil, and include an additional 20% VAT. Despite this, there are very minimal inputs from COMESA Member States. Almost all of the 70,000 metric tons of crude oil imports come from Malaysia and Indonesia.

The current installed crushing and refining capacity is 450,000 MT/year. Slightly more than half of this capacity (227 MT/year) is available for production, with the rest of the plants not currently capable of producing.

Major oilseed processors include:

- **Mohammed Enterprises/Tradeco Oil Industries**, a major refiner and part of a larger conglomerate
- **Fidahussein**, an important crusher and refiner
- **Al Imran Enterprises/Murzah Oil Mills**, a large refiner, which represents two separate companies recently merged, producing primarily palm oil with some cotton seed oil
- **Vegetable Oil Industries,** the leading brand ("Voil") in the Northwest, mainly crushes and refines cottonseed (it has had some problem distributing outside of its sourcing territory (Mwanza))
- **Said Salim Bakhressa & Co.**, currently a major flour miller, but also a potential processor to compliment flour distribution

Other investors include the following Tanzanian traders:

- **Exatrade Commodities**, major importer of Malaysian crude with large storage capacity at Dar port
- **Unilever Tanzania** , a major marketer using local contract production, with a large plant with excess capacity in Kenya, but unable to efficiently move product between the countries

<u>Opportunities</u>

Within the domestic market, opportunities exist, primarily because of the quality of the raw materials. There is good quality oil, produced from raw materials familiar to consumers (e.g., simsim, cotton and ground nut), which would likely sell at a price premium. An increased consumption of vegetable oil would make a much-needed contribution to consumers' caloric intake.

Sunflower seems to have good potential, but better seeds are needed for increased yields and higher oil content. Simsim oil is popular, but has a low oil yield and a high value as whole seeds for export to Japan. An opportunity exists in replacing sisal plantations with palm oil production; however, this would take several years.

There may be potential for well-managed, small-scale crushers located in key production areas that sell their crude to current refiners. Oilseed production investments would pay 0% duty on imported equipment and supplies and there are large plots of land available for commercial scale oil seed production

Within the COMESA region, there are opportunities to supply vegetable oil to interior neighbors with preferential access if made from Tanzanian oil seeds. Kenya and Uganda probably are good markets for quality meal, a by-product of local crushing, as animal feed.

Constraints

Market Size. Due to its low purchasing power, the market is non-differentiated; there are very few premium oils, the type oil is rarely designated and price is the dominant basis on which buying decisions are made. Rural buying power tends to diminish rapidly after farmers have spent the money gained from selling their harvest.

Competition. Malaysian and Indonesian crude oil and refined vegetable oil produced from palm kernels are very inexpensive. It is questionable if locally produced oils can be cost competitive with SEA palm oil.

Economies of Scale. The minimal investment for a competitive crushing operation is quite large; it is difficult to justify with a small, variable and expensive local raw material supply. Refining capacity investment is less expensive on a per ton basis. There is a very limited supply of local crushing material and it is spread over the country. Furthermore, poor rural roads make it difficult to acquire. The raw material sourcing is poorly organized; crushers go directly to producers or first level collectors. This increases acquisition costs and marginalizes producers in remote areas. Domestic raw material sourcing is also difficult due to localized payments that must be made in advance of product purchase; forged certificates are sometimes given upon payment. There is substantial excess crushing and refining capacity that results in low capacity utilization and therefore high operating costs. There is a minimal domestic market for the meal by-products from vegetable oil crushing so nearly the entire cost of seed must be recovered from the oil.

Seed Quality. The available sun seeds tend to have a low oil content since high-quality planting seeds (e.g., Record or S-400) are not widely available. Low producer sun seed yields and low oil content (22% vs. 42%) in the seed results in low farm gate prices, and therefore very low producer income from sun seed production. Thus, producers lose interest in the crop. Sun seeds are inter-cropped with maize and are not of major importance to producers.

Price Instability. Domestic raw material prices are unstable due to major supply versus demand imbalances. When world market prices are high there is great demand for local oil seeds so prices go up and producers plant more. When world prices go down, buyers import and there is minimal demand for local production so prices drop and producers stop planting.

Cottonseed oil production is a long distance from where most of the refiners and major markets are located and the roads are bad. Thus transport costs are high and cottonseed oil is not used for blending. Small-scale producers are not very reliable suppliers, yet commercial scale agriculture is risky and is likely to have a long-term payback. Poor security in rural areas makes it difficult and expensive to make cash available to pay seed sellers.

Smuggling and Mislabeling. There are reports that there is significant smuggling of Kenyan produced packaged vegetable oil which has a much lower cost than full tax, duty and VAT paid locally produced oil. Malaysia puts a $105/MT duty on crude oil exports so considerable quantities of “barely crude” (1.5% FFA) enter Tanzania and are sold as is as refined. According to local sources, sellers of “barely crude” oil take advantage of the duty structures of Malaysia and Tanzania by shipping refined oil out of Malaysia and then mixing a minimal amount of crude during ocean transport before arrival in Tanzania. It thus leaves Malaysia as refined oil to avoid export duties, but enters Tanzania as unrefined to avoid higher import duties.

Tax Disparities. Small crushers (less than TSh 15million/year) can avoid paying the 20% VAT, but larger firms cannot. This makes larger companies’ costs higher.

Improved Seed. Neither the government nor the private sector is doing much work in variety adaptation and quality oil seed multiplication. Thus labor investments are constrained by the low quality of inputs.

Transport Costs. Domestic transport is very expensive both for the actual cost and for the time required. It costs more per ton to move vegetable oil from Dar to Mwanza than from Singapore to Dar.

Input Costs. The high cost of electricity makes processing costs noncompetitive with Tanzania’s neighbors. Costs are twice that of Kenyan electricity and three times that in Zambia.

Consistent Rules and Enforcement. Investors complained that he duty rate on crude and refined imports needs to be stabilized or changed on an announced schedule so investors have predictability. Whatever the policy on import duties on crude and refined, and the exact specifications for crude and refined, the policies need to be fully and consistently enforced. Oilseed processing equipment incurs duty and VAT yet oilseed production equipment does not. This is inconsistent.

Packaging Duties. High import duties on packaging protect no one since there are no domestic packaging suppliers, but result in high Tanzanian packaged product cost versus Kenyan products that are made from Kenyan packaging. Large quantities of water in plastic packaging are imported to sell the water and get back the packaging.

Secured Credit for Investment. Policy changes are needed to be able to use land as collateral in order to free up the credit market and lower the cost of credit. Secured credit – using both movables and immovables – is essential to the credit market.

Misuse of Dedicated Funds. Oil sellers pay taxes to support a government fund for industry development. Interviewees believed that the government does not necessarily use these funds for the stated objectives.

Tariff Considerations. The vast majority (70%+) of raw materials used to produce refined vegetable oil in Tanzania are imported, so that lowering cross-border trade tariffs that includes local content requirements would be of minimal benefit to the Tanzanian vegetable oil industry. Much of the vegetable oil produced from local oil seeds is sold in the immediate area of production.

Increasing import duties on crude or refined vegetable oil would likely increase smuggling and retail prices since the domestic supply response would probably be slow to materialize.

Investment Environment. The cost and quality and a reliable supply of competitive oil seed may have to come from commercial, large-scale agriculture using irrigation. As noted earlier, this would require significant improvements in the investment landscape in order to lower the risk facing foreign investment.

Leather and Leather Products

<u>Overview</u>

Domestically, sales are minimal. There are some export opportunities in COMESA in the form of raw hides and skins to Kenya for re-export. Export to non-COMESA countries is approximately $5 million according to official figures for hides and skins. These skins are dominantly dried or salted. Some estimate that smuggling accounts for an additional $2 million in revenues. The major markets are Pakistan and Hong Kong/China.

The products that are exported are sold primarily at the low end as low quality hides and skins. Hides and skins are the only exported livestock products.

There are very few imports, particularly from outside the COMESA region. There are some hides and skins imported from inland neighbors.

Most leather tanneries, including several ex-parastatals, are not operating; only one tannery (Moshi) is known to be in production with a capacity of around 800 hides/day. It is currently operating at approximately 40% capacity.

Tanzania Leather Industries Ltd. and Morogoro are two large, ex-parastatals privatized in 1993. Both were purchased by African Trade Development Ltd. Morogoro received substantial pollution systems and financial assistance. Both subsequently closed, reportedly due to the low world market price of wet blue skins.

East Hides Branch is a potential new investor. They are a British hides trading company currently trading in dry hides only, but are considering going into wet blue.

There are very few leather products manufacturers operating. It was suggested that this is due to the predominance of second hand shoe imports. Some of the current producers include:

- **G & T Shoe Factory Ltd**. **–** Morogoro
- **Noble Footwear –** Dar; 350 pairs/day capacity
- **Ladha Industries Co. –** Dar; 1,800 pairs/day capacity
- **Jack's Footwear –** Dar; 50 pairs/day capacity
- **Shah Industries –** Moshi; leather goods such as bags, belts, key holders
- **Morogoro Leather Goods Factory –** not operating

There are few, serious business start-up difficulties for new investors. The Investment Center is quite efficient and helpful. Infrastructure weaknesses mean that smaller plants serving comparatively localized markets can be quite competitive. Additional domestic competition will improve operating efficiency.

Opportunities

There appear to be very few opportunities to service the local consumer market due to the low consumer buying power for leather goods. The extensive imports of second-hand shoes have sapped what few opportunities were present. There are, therefore, very few leather products companies operating. The tanning industry is operating at very low (<10%) capacity utilization.

Kenya is looking for good quality hides at a reasonable price for re-export, often to lower the cost of hides exported as Kenyan. There are not many more opportunities at present in the COMESA region under the current circumstances**,** with the possible above-mentioned exception of providing leather to Kenyan leather products companies.

An opportunity does exist to improve the raw material quality to achieve better prices outside of COMESA. Tanzanian industry could also source quality skins from inland neighbors. Increased revenues from improved downstream practices could serve as the basis for reinvestment in upstream processing, but there does not seem to be much interest at this time.

The East and Southern Africa Leather Industry Association (ESALIA) provides good technical and market information, and occasionally access to financing; access to international market information is essential to guide business decisions and to find the best price.

The value of existing production could be increased through improved practices. Assistance is needed for slaughterhouse personnel to learn improved flaying techniques, including better knives, and better methods of drying hides and skins. Current practices are diminishing the overall export value and thus suppressing potential returns.

Constraints

Workforce and Cultural Issues. Socialism had a very negative impact on the skills, basic education level and self-responsibility attitude of employees; thus labor productivity is low and micro-management is necessary. This puts great pressure on, and drives the price up for the few good managers and skilled employees. Participants in the study also reported that managers tend to trust and put into positions of responsibility only their relatives, and concentrate all decision-making.

There is a shortage of tanning skills in the country, yet since most tanneries are not operating, there is a minimal demand for those skills.

Tanzanian entrepreneurs expressed a tendency to have a short-term trading mentality, making them hesitant investors. This is further affected by perceptions of a relatively unpredictable policy, and to a lesser extent political, environment, leaving local investors very wary about the investment possibilities.

Market for Domestic Shoes. As with the other countries studied, second-hand shoe imports reduce the domestic market for new shoes, usually the largest use for domestic leather. Although some producers and policy makers see higher import tariffs as a solution, this will raise the overall cost to all consumers, who will then be limited to lower quality, higher priced new domestic shoes from low-end leather. Current production techniques and facilities simply do not provide the cost structure for effective competition with the second-hand shoe market.

Export versus Domestic Consumption. Integrated, more mature tanning and leather products companies in other developing countries, e.g., Pakistan and China, have lower production costs and high value-added end products and can therefore pay a higher price for Tanzania hides than can local tanners. This situation benefits exporters, who can obtain better prices through exports than through local sales. Local tanners, therefore, must have higher input costs, or can lower costs buy purchasing and working with lower quality skins that do not export as well. Local demand is for low-end products among domestic consumers with limited buying power. Current production costs are high. As a result, prospects for larger or regional investment in local production are poor. Tanzania has a poor reputation for quality tanning in the world market, so that local tanning production cannot compete for better prices in the export market. In short, current conditions favor hide and skin production for the export market, with a limited market for the locally tanned or finished products, either domestically or for export.

In addition, the duty and tax structure favors export of skins to Kenya. Comparatively higher taxes in Tanzania for local consumption mean that Kenyans, who command better prices for finished products due to a reputation for better quality, have a competitive advantage for purchasing, processing, and exporting value-added goods. Moreover, there is minimal border control between Kenya and Tanzania, so Kenyan leather and leather products, where scale economies are far greater, can come across with low costs.

Increasing the export duty on raw hides and skins would decrease prices to slaughterhouses which would result in even less careful handling of hides, and probably a somewhat lower price to producers for their animals. While this might lower the price of hides to tanners to make their output more price competitive, it is questionable if they could effectively use these low cost/quality hides since they do not have the needed tanning technology and their other operating costs would still be non-competitive.

Economies of Scale. There is not a large quantity of raw material supply in any one geographic area, so when this is combined with a poor transport network, raw material collection costs are high. Tanzania has a very minimal history of communal activities or cooperatives so joint efforts by either producers or processors are quite difficult. This fragmentation reduces the ability of producers to capture cost savings through economies of scale.

Investment Environment. Tanzania's perceived political stability worries foreign investors. Top government officials, ministerial level and up, are world class, but the investor contact level is weak, especially in the ways of international business. Nearly all of the current investors in both vegetable oil and leather and leather products are Asian. New investors have expressed concerned about the "Zimbabwe effect" (pressure for land redistribution) on Tanzania, a fear that can have a serious chilling effect on new investment requiring land acquisition.

Pollution Controls. Tanning is potentially a heavy pollution industry and conformity to current pollution control laws requires a very expensive treatment plant. In most cases, investment in the needed treatment plant is more expensive than all other capital costs combined. Moreover, operating the plant to treat effluents is also expensive and somewhat technical to operate. In other countries, smaller tanners sometimes cluster around and share common effluent treatment facilities, lowering the overall cost to each and increasing the profit margin and competitive pricing capacity.

Capital. The high cost of debt (22%+) increases the cost of investment and working capital loans. Part of this inflated cost is due to poor repayment practices, driving up the risk factors for lenders, thus it can be reduced for well-secured borrowers or those with established reputations for repayment.

Quality Controls. There is no public grading of hides and skins at slaughterhouses. As a result, supply is not differentiated by value and quality, resulting in an inconsistent quality of hides and skins. Better quality production, therefore, obtains no price benefit over poorer quality, thus lowering incentives for skilled work. For buyers, it also means that quality is unpredictable, thus worth less, as grading and sorting costs must be born by them.

Although there is demand locally and in export markets for the higher quality hides and skins – at higher prices – current practices are reducing the current and potential value. As a consequence, producers and slaughterhouses see skins as low value items that do not deserve much attention or proper treatment, so that little attention is given to proper flaying and drying techniques, further lowering value.

Information. There are very few skilled and market-aware extension agents to enhance producer productivity and improve product quality. This includes not only a lack of training for improved production, but also a lack of information about price differences based on product quality. Incentives for better production are missing.

Transport and Collection. The poor road and communications infrastructure makes hides and skins collection difficult and expensive.

Impact of Cost Factors in Tanning. The estimated total cost for tanning a square foot of leather in Tanzania is $1.70, while in Zambia and Kenya it is around $1.00. Factors contributing to this include very expensive electricity, communications and transport costs.

Government Coordination. For tanners who need to interact with the government with respect to licenses and other regulatory issues, there are reports of poor or contradictory coordination. The Ministry of Agriculture oversees the value chain from animal to tannery, and the Ministry of Industry has authority from the tannery forward. Investors expressed a desire to see the policies coordinated.

In addition, investment incentives are announced but may not be recognized. The Investment Center states that investors will be charged no duty on imported equipment to be used to produce products for export, but the Revenue Authority has been reported to collect duty anyway. To investors, the two ministries are not in coordination, are not predictable and policies are not transparent. There is no duty draw back for imported equipment to be used for export production.

Investor Confidence. Many potential investors expressed wariness at the government's commitment to reforming the investment environment, especially with regard to adoption and implementation of policies promoting cross-border trade liberalization. Inconsistent enforcement creates unpredictable risks, which in turn have cost and competiveness impacts. Much government policy has proven unpredictable to investors.

Investors observed that government had not yet proven its willingness get out of business and to genuinely encourage direct investment, including foreign direct investment. This requires a level playing field, at least within the domestic market. New investors report that they often cannot get a business license to compete with parastatals or cooperatives.

A number of investors stated that EAC, COMESA and SADC rules and policies are not effectively implemented, and instead are little more than framework documents., Whether this is stated from actual experience on the part of the investors or simply based on perception was not clear, but for investment, impressions can be even more important than facts. COMESA must be aware of the concerns of its private sector in order to address them.

A one-stop-shop or other facilitation unit for customs issues in imports and exports has proven effective in many countries for improving the environment, lowering costs, and improving investor relations. Such a center can provide quick and transparent import approvals, payment, and release to replace the existing excess of red tape that investors generally complain about. This does not yet exist.

Investors further complained that the minimum duty value specified by government is often not related to the real value of the import, which should be determined by pre-shipment inspection. Duty drawback for exported products is seen to be very slow and often not worth the extensive effort required to apply for and receive it.

These problems are related to another investor critique – that many government functionaries do not seem to understand the business transactions that they oversee. This leads to poor performance and poor customer service. For outsiders who can choose to invest in other countries, even such a seemingly small item can be the deciding factor in where investors put their money.

UGANDA

Uganda has substantial natural resources, including fertile soils, regular rainfall, and sizable mineral deposits of copper and cobalt. Agriculture is the most important sector of the economy, employing over 80 percent of the work force. Coffee is the major export crop, accounting for over half of export revenues. Since 1987 the government, with the support of donors, has rehabilitated and stabilized the economy by undertaking currency reform, raising producer prices on export crops, increasing prices of petroleum products, and improving civil service wages. The policy changes are especially aimed at reducing inflation and boosting production and export earnings.

At the time of its independence from Britain in 1962, Uganda was an emerging success story with rapid agricultural growth, a developing industrial sector, and growing intellectual and cultural leadership. However, progress was dramatically reversed by the late 1960s when political instability was followed by a coup led by Idi Amin in January 1971, and turbulence continued after Mr. Amin was overthrown in 1979.

By 1986, Uganda had become one of the poorest countries in the world. The education and health systems had collapsed, the physical infrastructure had crumbled, and the civil service had been destroyed by low wages and poor morale. Furthermore, the economy was highly regulated with state intervention in nearly all sectors. Real gross domestic product (GDP) per capita was 42 percent below its level in 1970; the public revenue base had collapsed; inflation was raging; and government expenditure, exports and investment had all fallen to below 10 percent of GDP.

In mid-1987, the government embarked on an economic recovery program aimed at reducing poverty by restoring fiscal discipline and monetary stability, and rehabilitating infrastructure (economic, social and institutional). The recovery program further encompassed civil service reform, revised investment and incentive structures, and made a rapid move to a market determined exchange rate.

Since 1987, the government has worked consistently to implement and improve an economic reform program that has now attracted the attention of the entire region. By 1992, the effects of a turnaround had begun to show, foreign inflows increased and coffee production boomed. The impact of the combination of government-led reform and development assistance has been impressive as reflected by sustained real GDP growth and a 21 percent drop in poverty (headcount index) to 44 percent in the five year period since 1992.

Uganda has emerged as robust economic performer in the past few years. Real GDP growth averaged over 7 percent per year over the past decade, and underlying inflation has averaged some 6 percent. Real GDP growth in 2000 was estimated at some 5 percent due to adverse weather and deteriorating terms of trade, but inflationary pressures were contained. In agriculture, Ugandan coffee growers have responded to the reforms by regaining the position of the largest coffee grower in the continent, the tea industry has been revitalized, a small horticulture industry is emerging, and maize exports to Kenya are growing. The industrial sector has also expanded rapidly, with real output growth of nearly 12 percent per year over the past decade. Infrastructure rehabilitation has been impressive and the government is creating a national road grid that will connect all parts of the country. The Government has also made major strides in trying to improve social conditions of the disadvantaged, notably by the implementation of a program of Universal Primary Education, which has led to a more than doubling in enrolment at primary school levels.

Uganda has been faced with a serious debt problem. In order to reduce the country's external debt burden, and in view of its sound macroeconomic reform record, Uganda was the first country to be declared eligible and to benefit from the Heavily Indebted Poor Countries (HIPC) Initiative (in April 1998), ensuring some US$700 million (in nominal terms) in debt relief, of which about 50 percent was from the World Bank. Part of the debt relief from the Bank was in the form of an IDA grant of US$75 million, which was allocated for the Universal Primary Education Program. This was in recognition of the effectiveness of Uganda's poverty reduction strategy to date, the iterative process involving civil society in the formulation of the poverty reduction strategy, and the authorities' continued commitment to macroeconomic stability.

The government's commitment to economic stability and private sector-led development remains firm. The improvements in Uganda's investment environment are now receiving international recognition. Uganda had the largest improvement of any country in the World Bank Institutional Investor ratings in 1997.

Some of the laws under the existing investment conditions include a corporate tax rate of 30%, which is significantly less than several other African countries. In addition, allowances are offered to investors, and may reach up to 100% according to the location of the project. Duty taxes on machinery and plants are as defined in the HS code.

Apart from the key natural resources copper and cobalt, other economic activities include brewing, textiles, cement, coffee, cotton, tea, corn and tobacco. Of these, coffee, cotton and tea are exported. Main imports include petroleum products, machinery, cotton products, metals transportation equipment and food. Main trading partners are Kenya (within COMESA) and Spain, France, Germany and the UK. GDP as at 1999 was US $16.8 billion with exports of US $0.5 billion against imports of US $1.2 billion.

There are currently several subsectors offering investment opportunities namely manufacturing agriculture equipment, agro-processing, textiles, metal products, tourism services, health care paper and packaging, storage, mining communication and energy.

Uganda is yet to become a member of the COMESA Free Trade Area.

Oilseeds

The domestic market of 42,000 metric tons (MT) amounts to approximately 0.5 liters/capita in this country of 23 million inhabitants. The market is made up of 45% liquid vegetable oil products and 55% solid vegetable oil products. The market is valued at $36 million/year at retail. The price charge is approximately a 50% premium to Kenya, with the growth in the domestic market flat to slightly up.

There are almost no exports to COMESA Member States. Although there are some exports to neighbors, even this small amount is declining. Moreover, very little is imported from other COMESA Member States. Almost all imports are from Asia. In short, Uganda has essentially no export market for oilseed and oilseed products, and looks to Asia for imports instead of COMESA.

Domestic production is increasing rapidly. Oilseed production has ranged from 1,300 MT in 1995 to 16,100 MT in 1999, an increase of more than 1200% in four years. This domestic supply of raw materials accounts for approximately 40% of total supply vegetable oil supply, broken down as follows:

- Cotton 1%
- Sunflower 86%
- Soy 11%.
- Other 2%

To make up the difference between domestic supply and demand, Uganda imports 77,600 MT of crude vegetable oil from non-Member States for both food and non-food uses. Of this figure, 27,600 MT is from Malaysian and Indonesian palm oil. Another 37,740 MT is from crude soy oil.

Import Duties for oilseed products are much lower than those in the other three countries studied. Total tax burdens amount to 24% for crude oil and 42% for refined. As there is virtually no import from COMESA trading partners, however, these are applied almost solely to Asian suppliers imports. The taxes and duties are broken down as follows:

Crude:	COMESA members	4%
	Non-COMESA members	7%
Refined, packaged		
	Import Duties	15%
	Excise Tax	10%
Value Added Tax (VAT)		17%
Total:	Crude	24%
	Refined, packaged	42%

The bulk of the taxes are assessed through VAT, so that the difference between COMESA and non-COMESA duties on crude oils is less than 14%, rather than the 43% difference between import duties. Asian crude is generally higher quality than regional production.

There is an installed crushing and refining capacity in Uganda of 365,000 MT/yr. with around 150,000 MT/yr. available, the difference arising from plants no longer capable of producing. Overall, then, crushers and refiners are working well below capacity, as is true in all of the other countries studied.

Some processors include:

- Mukwano Industries (U) Ltd. – 24,000 MT/yr.
- Kengrow Industries Ltd. – 8,500 MT/yr.
- Uganda Trade and Industrial Enterprises Ltd. – 8,000 MT/yr.
- Nile Agro Industries Ltd. – 5,500 MT/yr.
- 407 very small-scale ram presses – 5,400 MT/yr.
- Kakira Sugar/Madhvani Industries – 3,960 MT/yr.
- Bidco Oil refineries Ltd. is a possible investor in a major palm oil plantation and processing facility on Lake Victoria with significant ($30 million) government assistance for infrastructure.

The major trader/marketer of oil products in Uganda is Unilever, Uganda.

Opportunities in the Oilseed Sector

1. Domestic Market

Increased Production. The Ugandan climate permits two full growing seasons for production or oilseeds as a cash crop. Many producers could dramatically increase their production through a second crop.

Increased Demand for Local Production. Uganda currently either does not require or not enforce labeling regarding type of oil (sun vs. cotton, for example) or country of origin. There is a clear local preference for certain types of locally produced oils, but demand is being diluted by lack of information regarding the product. Proper labeling would capture specific demand trends and permit local producers to respond.

Increased Productivity. Quality control information and practices at the village level are inconsistent, at best. Training is needed so that village-level collection stations can grade, clean, bag, and store seed, otherwise the value of increased production will be compromised. This will improve the quality and thus the prices that local producers can capture for their product. In addition, better bagging and storage will permit off-season sales with reduced loss while improving the quality of the product for the crushers.

Improved seed stock and variety are needed. Crushers pay for seed based on oil content and ease of processing. For example, soft-shell sunflower seeds bring a higher price than hard-shelled. Since the labor required for each variety is essentially the same, switching to better seeds will increase the income of the producers and, thus, their interest in increased production and investment. This will also improve the productivity for crushers, who will get better yield from better products. Soft-shell sunflower seed can also have a high oil content (25-28%), and be efficiently processed by expellers, the most prevalent vegetable oil processing machinery in Uganda.

Uganda imports 60% of its oils, subjecting them to import duties ranging from 7% to 15%. The government could set-aside part of the vegetable oil import tax to finance development of local production and industry, as has been done in India (the "Yellow Revolution") and other countries.

2. COMESA Market

Market Size. Uganda could expand its market within COMESA based on existing products. First, Kenya is a net importer of sunflower oil, currently looking to foreign suppliers to meet much of the local demand. In addition, Kenya has unmet demand for meal which could be supplied by Ugandan producers.

Exports of crude sesame oil to Egypt have good potential, especially if transport constraints can be reduced. There are also reasonable possibilities for expanding production of palm oil through plantation outgrowers on Lake Victoria islands.

3. Non-COMESA Market

There are few opportunities to expand Ugandan oilseed product exports to non-COMESA members. There appears to be good potential for selling crude sesame oil to the Middle East based on preliminary research.

Constraints

Market Size. Crushing and refining capacity is four times domestic demand. As a result, overhead costs are quite high for local competitors. In the short-term, the only way to increase productivity in existing plants is to expand production for the export market because the domestic market will simply not support full production. In addition, costs of working capital are exaggerated by the oversized production facilities, making it prohibitive for many crushers to operate off-season.

This has other impacts. To remain viable, crushers and refiners need raw materials and do not discriminate effectively between high and low yield seeds, or hard versus soft shells. They simply need seed to crush and will take whatever they can get. This super-saturated supply of crushers and refiners is sending distorted signals to farmers, who are not getting information about comparative values of different seed qualities and changing their practices to capture the premiums that might be offered in a normal market.

Kenya also has an excess processing capacity, which causes Kenyan firms to be very aggressive in the Ugandan market. At the same time, Kenya applies higher import duties to Ugandan products, charging 10% or 25% on crude and refined oil respectively, versus the 4% and 10% Ugandan duties. The Kenyan Government has been reluctant to approve COMESA duty on the importation of Uganda sun oil.

There are very few solvent-process extractors in Uganda to handle soy. Crushers produce less than half of the available oil in the soybean (only 5-7% instead of 12-15% yield). This lowers the farmgate value of soy for the producer, increases cost of soy oils, and makes soy cake unstable. The existing market in Uganda may not support investment in proper solvent extraction due to economies of scale, thus raising the possibility that soy should either be raised primarily for export as raw material to Kenyan or other solvent extractors, or that investment should not be focused only on the domestic market, but on the regional market.

Local Transport Costs. Landed prices for Malaysia and Indonesia refined and crude palm oil are very low due to high oil per hectare yield of Malaysian and Indonesian crops and their substantial economies of scale. Local transport costs are very high for domestic and imported sourcing, local distribution and export. As an example, crude from Malaysia to Mombassa costs $40/MT and from Mombassa to Kampala $125/MT. Reduced transport costs would increase margins for profitability for local refiners of crude imports as well as for local producers.

Much of the seed production is in remote areas where it is difficult and expensive to collect due to a combination of poor roads and local taxation. Better transport infrastructure is needed to get seed to market in rural areas. On the other hand, greater emphasis should be placed in the short-term on increasing production and productivity in areas decently connected to the existing roads.

Corruption, Mislabeling and Smuggling. There were numerous anecdotal reports of refined oil being illegally imported as crude oil at the lower duty rate. Outright smuggling, especially from Lake Victoria, is said to be an even greater problem than mislabeling. The savings on smuggled goods are 20-40% by avoiding all duties, or at least all official duties.

Protection. As already noted, the discrepancy between tariffs that Uganda and Kenya charge each other are distorting the market. Kenya is protecting itself against Ugandan exports, making regional-oriented investment in Uganda less attractive.

From another perspective, it could be argued that some protections are needed. The Ugandan market is a very price sensitive domestic market that will accept virtually any type and nearly any quality of oil. Appearance of cheaper oil immediately has an impact on the overall oil market. America’s PL480 program is providing oil at “market” prices, but without taxes or import duties, giving it a price advantage over some of the locally produced oils. This PL480 oil accounts for around 10% of total consumption, and has been said to lower local prices.

In addition, several interviews cited concerns regarding the application of country of origin rules. It was rumored that Egyptian joint ventures with Malaysian partners were using Egyptian trade preferences as a COMESA member to bring in Malaysian oil under the improper duty category through re-designating the country of origin.

Information. Market information – including price, quality, packaging, competition, regional opportunities and other important issues – is not readily available. Producers are using poorer seed stocks and varieties in great part due to lack of information about alternatives. Without a better communication network through associations or services, the private sector will be constrained in its ability provide the needed seeds because demand for them will be constrained by ignorance. Likewise, information on neighboring markets and opportunities for import or export is deficient so that potential regional investors who have limited resources for market research do get the initial information they need to explore new opportunities efficiently.

Supporting Institutions. Stronger associations such as the Cotton Development Organization are needed to assist producers in understanding market demand and increasing production and productivity. In addition, regional associations are needed to share market and industry information about opportunities and constraints outside of Uganda.

Regional Politics. As already noted, there is an impression that Kenya is in a "go slow" mode in implementing duty reductions for products from Uganda.

"Food Security." Most production is by small subsistence farmers, who are not yet investing sufficiently in cash crops such as oil seeds to provide sufficient supplies to local crushers. Instead, they focus primarily on food crops for themselves and local markets. Little specialization is taking place that will permit necessary increases in production and productivity for economic growth, much less for regional investment. Cash crops are seen as a "fringe" undertaking.

Competing Land Use. The value per hectare for oilseeds is generally not competitive with maize, so cotton and sun seed are only grown in areas not suitable for maize. This, of course, is sensible, as the producers are expected to invest in those crops that provide the greatest return on investment. More information is needed regarding use of oilseed for crop rotation, comparative advantages of growing oilseed in certain regions, and comparative values of different kinds of oilseeds so that farmers can make appropriately informed decisions.

Leather and Leather Products

Overview

Domestically, sales of hides, skins and leather products are very minimal. Uganda exports approximately $14 million of hides and skins, primarily dried or salted ($12 million), with a small share going to Kenya in raw form for re-export. The value of these exports has been declining in recent years. Uganda's hides are of good quality, but there are some post-slaughter handling problems. Major markets are Hong Kong/China and Turkey.

There are 6 million head of cattle and 6.5 million sheep, goats & pigs in Uganda. The offtake is 15% for cattle and 30% for goats. More than 1 million hides and 2.5 million skins are pulled annually, of which almost all of the hides and 80% of the skins are exported. The collection of hides and skins is difficult because most slaughter takes place in rural areas; however there is an increasing recovery from rural slaughter houses (which account for 60% of slaughter) and post-slaughter handling. Approximately 85-90% of hides and skins are exported as raw/salted with the remaining 10 - 15% as wet blue. One competitor (Basajja) controls 80% of the hide supply by financing rural cattle buyers and owning a major Kampala slaughterhouse.

There are very few imports of hides and skins from COMESA or other neighboring countries simply because the demand is met by local production. With little tanning internally, most of these are exported, thus import is potentially important only for re-export at this time. That is, Uganda can serve as a transshipment point for some of its neighbors, but is unlikely to need additional product for the domestic market.

Most leather tanneries, including several ex-parastatals, are not operating; only one tannery, Tanners Leather Industries of Uganda (LIU), is known to be in production. LIU has capacity to process around 15% of the domestic supply of hides and skins, but currently processes less than 5%. It processes about 150,000 wet blue hides, and 45,000 finished leather. It also exports another 400,000 hides. Closed tanneries include Bassajjabalaba Tannery and Al-Ahmed Tannery.

Very few shoemakers are operating due to price competition from second hand shoe imports. The total annual production is around 400,000 pairs with 4 million used shoes imported. Manufacturers of leather goods include:

- Uganda Bata Shoe Company Ltd. – Kampala Capacity – 5 million pair of assorted styles/products (using less than 20%)
- 160 artisan shoemakers who produce an average of three pair of shoes/day
- Two leather sports ball makers – Equator Sports and Universal Sports, producing around 40 balls per day each.

Traders

- Basajjabalaba Hides & Skins – Kampala Controls 80% of raw material. They own a tannery but do not operate it. Instead, they use their Kenyan tannery for leather production.
- Siraji Enterprises Ltd. – Kampala Trades +/- 3% of H&S
- SWT, Rwenzori and Alhamed account for a total of around 9% of H&S exports.

Opportunities

There are very few domestic market opportunities due to a low consumer buying power for leather goods despite a theoretical market of 23 million shoe buyers. Most of the demand for leather shoes is met through extensive imports of inexpensive second-hand shoes. As a result, few leather products companies operate and the tanning industry is operating at less than 10% of capacity.

Other than providing hides and skins to Kenya for leather production and providing leather to some Kenyan leather-products companies, there are few opportunities for trade with COMESA members under current circumstances. Investment opportunities at present tend to be in export, but this may eventually change.

On the other hand, if Uganda were to increase its leather production, there is a plentiful supply of good quality hides domestically. In addition, they can be imported from Rwanda, Burundi, Congo, Zaire and southern Sudan with very few problems. Effluent treatment is a challenge, one greater than most of the potential tanners can handle on their own. Other countries, such as India, have provided assistance to their leather industry through support for cooperative effluent treatment plants. Some form of support will be needed to meet this challenge and significantly reduce the cost of tanning.

Outside of COMESA, Uganda hides are often used for upholstery leather, a high value end use. Ugandan leather is also used to produce uppers for finishing in Italy. These will continue to be important markets to maintain and expand. Opportunities also exist for low and middle quality shoe production and export due to local hide quality, but better tanning would be needed.

New opportunities exist in locating skin-pickling plants near key skin collection points to preserve quality for export. Pickling does not have effluent problems. There are available STABEX funds to support leather and leather products industry development.

Constraints

<u>Market Size</u>. The market for locally produced leather products is weak due to low buying power of the impoverished population and the high cost of inputs. Raw hides and skins, however, have a solid market in Europe and Asia. As an export industry, there is good growth potential from improved quality of hide production and preservation.

<u>Cost of Transport</u>. The high cost of transporting between Kampala and Uganda negatively affects Ugandan investments in two ways. First, costs of exports are inflated, lowering profit margins. Second, inputs for tanning, production, and integrated industry components (from shoe laces to chemicals) are uncompetitively expensive due to transport costs. In a country with poor buying power at the outset, such increased costs for local production are very damaging.

<u>Cost of Capital</u>. High interest rates work against the development of local production. Raw hides, which can be exported easily due to Ugandan quality, enable traders to turn over their money in about three weeks. For tanners, turnover can take six months, and financing is expensive. Thus the market favors export instead of local investment in leather production.

<u>Input Costs</u>. Aside from the high cost of imported inputs, the Ugandan leather products industry is affected by the higher prices offered in the export markets. Ugandan quality results in higher prices abroad. While this is excellent for the export market, it means that local tanners must compete with the export market for skins and thus must pay export prices or purchase inferior supplies at lower prices.

<u>Economies of Scale</u>. Capital costs and operating costs of effluent treatment are very high and require considerable economies of scale to justify investment.

<u>Local Standards and Abilities</u>. The LIU tannery, the only one operating, can only tan to domestic and regional standards; for better quality leather a major capital investment would be required. In addition, foreign buyers have rapidly changing fashion and style needs. Local producers must be able to produce different colors and types of leather for the leather market, requiring flexibility in the tanning process. Such flexibility is not currently strong.

There is little local grading of hides and skins, creating a missed opportunity for obtaining better pricing based on specific grades.

<u>Import Competition</u>. The largest domestic and regional leather end use is for shoes, but shoe sales are very negatively affected by second-hand imports. The more value that is added to H&S, the narrower and more difficult to serve is the market. Shoe production is very sensitive to economies of scale, but currently there is only one large producer in the country.

<u>Competition</u>. One company dominates the industry. Basajjabalaba Hides & Skins runs the country's most important abattoir. By providing financing to rural livestock buyers, Basisjibalaba ensures an ongoing supply of hides and skins by requiring the borrower to sell back to the lender. Through this, the company controls approximately 80% of the available supply.

Labor Force. Bata recently downsized, putting many skilled cobblers out of work. This has discouraged the entrance of potential new trainees, who will have to compete with experienced crafts workers in a tight job market.

Bureaucracy and Corruption. Ugandan importers and exporters complain of substantial cross-border delays and informal payments. Indeed, these expenses are considered much more important and significant than official duties. Shippers report that duties are paid both to the government and to the customs officials. Duty rebates are available for re-exporters, but the process is described as much too slow and bureaucratic, causing many to either forego rebate claims all together or pay high financing costs while waiting for the return of their money.

Supporting Institutions. Uganda needs a national association, chapter of a regional association, or one or more other entities to support the leather industry.

Common Constraints for Both Sectors in Uganda

Transport Costs. The cost of imported inputs is very high, extensively due to the cost of transport from Mombassa to Kampala. Land transport is slow, expensive and high risk. Fuel costs are high.

Customs and Rules of Origin. As noted for oilseeds, a number of Ugandan businesses complained of the re-export of non-COMESA products through COMESA members to claim COMESA preferences, when in fact they do not properly originate from the member country.

Capital Costs. The cost of finance for working capital was reported to be very high. Investors also complained that foreign-exchange-based finance is not currently available for intra-COMESA trade.

Health and Education. A number of investors felt that the Uganda education system does not currently develop graduates with the necessary basic skills for commercial activities. Worse yet, HIV/AIDS is reducing the highest quality portion of the work force.

Investment Incentives. Investors report that due to poor coordination between the Uganda Tax Authority and the Investment Promotion Board, there are significant differences between promises and actual tax assessments. This, along with general skepticism regarding government commitment to reforms in lowering and standardizing duties, and overly confusing licensing procedures, means increased reticence among potential investors to increase or initiate investments.

Unpredictable Kenyan Practices. Exporters complain that Kenya frequently makes last minute, arbitrary and unannounced changes in the rules, regulations and practices regarding imports from Uganda.

ZAMBIA

Background

During the last few years, Zambia has embarked upon a broad agenda of structural reforms, including privatization of state enterprises, trade liberalization, civil service reform, and financial sector restructuring. These have focused on the diversification of economic activity, promotion of non-traditional exports (NTEs) and encouraging both domestic and foreign investment.

Specifically on trade, the Zambian government intends to complete the process of the liberalization of the trade regime by implementing its commitments under the COMESA Free Trade Area. The 1996 tariff reform and the elimination of the import declaration fee in 1998 have stimulated Zambia's external competitiveness by reducing duties on imported inputs. The government is committed to maintaining a liberal trade and exchange regime, and to continuing trade liberalization as part of the Cross-Border Initiative (CBI)-now called the Regional Integration Facilitation Forum (RIFF).

Average import tariffs have been reduced to below 15 percent, and the tariff schedule consists of only three non-zero rates, with a maximum of 25 percent, which is consistent with Zambia's commitments under the RIFF. Over the medium term, the Government aims to reduce the weighted-average import tariff to close to 10 percent.

To this effect, the maximum rate will be reduced to 20 percent in 2001. Also, the mechanism for consultation between the private sector and the Government on export promotion will be streamlined.

Excise duties range from 10 to 125% and apply to a limited number of goods, whether imported or locally produced. A value-added-tax (VAT) of 17.5% replaced the 23% sales tax and is collected on both goods and services, locally supplied or imported.

Zambia applies no export taxes, levies or charges and grants no direct subsidies to exports. A duty drawback scheme is in place for exporters. Non-traditional exporters are exempt from customs duty and VAT on imports of machinery and equipment. They are also entitled to a concessionary income tax rate of 15% of their export earnings, compared with the standard rate of 35%. All exporters enjoy full foreign-exchange retention rights.

Textiles and Garments.

The textile industry in Zambia has declined over the last ten years largely as a result of the competition arising from the liberalization of the economy. For a long time, the Zambian economy had been protective and the textile sector experienced a boom in business during the 1980s. This protectionism was a government policy of import substitution – a policy that was also used also in Malawi and other countries in the region. With declining levels of foreign exchange in the country, government embarked on a program to reduce the dependence on foreign products by producing them locally. Thus the textile sector (along with most other sub sectors) was protected from foreign competition.

In line with the above, the majority state-owned Development Bank of Zambia (DBZ) financed large sums of money towards establishing and expanding the sector, as part of the government support to textiles. For instance, all four companies visited during the study in Zambia had previously borrowed from DBZ. Furthermore import duties on textiles were kept high and until 1991, were as much as 45%. Raw materials at the time were 15% and most industries could sell profitably with this 30% marginal difference. Following the change of government in 1991, economic policies were adjusted to focus on a liberal and market determined free market. Import duties on textiles were reduced over a three-four year period from 45% down to 15%. Duty on raw materials was also reduced but only to 5%.

Thus, given this minimal margin difference of 15% for finished textile product and 5% for the raw materials for garments and the prevailing high production costs, it became increasingly difficult to compete against cheaper imports. These included imported garments and linens mostly from Asia, Zimbabwe and South Africa.

Over the years, industries in the textiles sector have shrunk in business output and a few others have closed down altogether. Noteworthy among the big industries is the Kafue Textiles Company that once produced one of the leading Chitenge materials in the region, which is very popular among women. Mulungushi Textiles limited also closed down but later re-opened with Chinese re-capitalization under the name Zambia-China Mulungushi Textiles Limited. This declining trend in business for the Zambian textiles sector is illustrated in these closures.

Cotton Growing.

Prior to the 1990s, cotton was predominantly done through the state owned Lint Company of Zambia (LINTCO). This was later privatized and sold off to Lonrho Cotton in the central and Lusaka Provinces and Clark Cotton Limited in the Eastern province. Lonrho Cotton Limited was again recently sold to an America company, Denvount. Lonrho Cotton, now called Denvount, has been the main supplier of raw cotton to the Zambia textiles industry. However, as the pricing is indicated at the international Liverpool Index price – buyers have sometimes sourced from other smaller ginners or outside the country where it is 15-20% less expensive.

For Zambia, growing of cotton is done through out-grower schemes for several small farmers mostly in the Central, Lusaka and Eastern Province. These are supported by the following major ginners:

(i) Denvount (formerly Lonrho Cotton).
(ii) Clark Cotton.

(iii) Amaka Cotton
(iv) Continental Ginners
(v) Mulungushi

A few other companies such as Swarp Spinning Mills have tried to support out-growers as a source of raw cotton but have received poor returns due to low commitment levels and diversion of the grown cotton to the open market or other interested buyers. And further, with the Asian crisis in 1998, decline of world currencies against the US dollar and consequently a fall in the cotton price internationally, the cotton crop in Zambia fell by about half in 1999/2000 in preference for maize growing where farmers could fetch more money.

Spinning

While a few textile companies are involved in spinning, Swarp Spinning Mills Limited who currently produces tonnes per annum largely does this. With the declined domestic textile industry, Swarp Spinning Mills has centered its output for the European export market. The COMESA market, it was said, was too small to contemplate even as a region.

Weaving

The Weaving industries have also centered their attention to the export market – to Europe and more recently South Africa, which recently reduced import duty on Zambian yarn from 20% to 13% under the SADC Trade protocol affected on 1st September 2000.

The liberalization of the economy and the influx of both cheap Asian fabrics and second hand clothing have reduced business for this subsector. For instance, one weaving company indicated during the survey that the amount of raw materials sourced had declined in the last five years by about two thirds.

Garments Manufacturers

Most of the large garment manufacturers are also involved in weaving. The smaller manufacturers produce for the domestic market, for specific industries and hardware stores. This includes protective clothing and defense and security wear. Local textiles also include ordinary garments and tied linen but at a smaller scale. As in Malawi, many small–scale textile manufacturers or tailors have either diversified or closed down due to the cheap second-hand clothing that has flooded the local market.

Second-Hand Clothing

While there have been requests the textile industry to either ban second hand or impose high import duties so as to protect the local producers, this trade has continued to grow in the last 10-15 years. Due to the social considerations, the government has opted not to ban the trade while duties have remained low to keep the prices low enough for the average local person.

This is seen to be a better policy than subsidizing the final products that would be manufactured locally. Though this has negatively affected the local textile industry, it has made clothing affordable for the majority of the citizens whose average purchasing power has continuously declined over the years.

New Investments In The Textile Sector

Investment in the Zambia textile sector has largely been in expansion of production capacities of existing industries. These include Swarp Spinning Mills and the new Mulungushi Textile companies. There have been no major direct foreign investments in the sub sector recently. A break down of the investment in the textile sector since 1993 as recorded by the Zambia Investment Centre (ZIC) is shown below.

Companies Holding Investment Certificates In Manufacturing Sector From 01/01/93 to 30/11/2000

	PLEDGED INVESTMENT($)	PLEDGED EMPLOYMENT	DISTRICT
TEXTILE, WEARING APPAREL AND LEATHER			
Xinye Company Limited	385,200.00	30	Kabwe
Sacoza Industrial Co. Ltd	491,000.00	81	Lusaka
Total For Subsector	$876,200.00	111	
Textiles And Clothing			
Sakiza Spinning Ltd	20,908.00	0	Kitwe
Clark Cotton Zambia Ltd	925,000.00	201	Chipata
Asha Garment Manuf. Ltd	26,000.00	13	Chipata
Noble Clothing Manuf.	130,000.00	0	Lusaka
Mumbwa Cotton Ginery Ltd	4,308,524.00	0	Mumbwa
Gormanghast Leahter Ent.	5,415.00	0	Lusaka
Memon Enterprises Ltd	133,300.00	0	Lusaka
Shan Shui Company Zambia Ltd	99,120.00	0	Kabwe
Wrinkles Manufacturing Ltd	283,761.00	103	Lusaka
Polythene Products Ltd	500,000.00	30	Lusaka
Zasocks Ltd	103,011.00	0	Ndola
Nisco Industries Ltd	287,203.00	20	Lusaka
Auspicious Agro-Industrial	480,000.00	15	Kabwe
Seekafi Investment Ltd	20,000.00	10	Luanshya
Pokel International	2,000,000.00	63	Lusaka
Berger Enterprises Ltd	965,000.00	579	Lusaka
Serios (1998) Ltd	1,000,000.00	354	Luanshya
Vanzetti Industrial & Comm	260,080.00	42	Lusaka

	PLEDGED INVESTMENT($)	PLEDGED EMPLOYMENT	DISTRICT
TEXTILE, WEARING APPAREL AND LEATHER			
Sims Industries Of Zambia	498,500.00	35	Lusaka
Zamtex Spinners Ltd	1,114,220.00	0	Livingstone
Zambia-China Mulungushi Text.	18,975,000.00	0	Kabwe
Continental Ginnery Ltd	1,156,000.00	50	Kalomo
Alsasi Ltd	10,823.00	0	Lusaka
Tech-Fit Zambia Ltd	80,974.00	14	Lusaka
Amaka Cotton Ginneries	4,785,618.00	90	Kabwe
Sanshua Ltd	515,000.00	0	Lusaka
Nisco Industries Ltd	339,580.00	20	Lusaka
Libembe Industries Ltd	50,503.00	0	Lusaka
Manal Investments Ltd	378,000.00	0	Lusaka
Zist Investments Ltd	49,550.00	0	Lusaka
Kafue Textiles Of Zambia Ltd	1,154,700.00	0	Kafue
Bella Industries Ltd	127,062.00	0	Lusaka
Kabwe Industrial Fabrics Ltd	1,154,700.00	0	Lusaka
Saracheal Investments Ltd	127,062.00	0	Lusaka
Libro Textiles Industries Ltd	1,909,824.00	0	Kabwe
Katena Enter0prises Ltd	9,226.00	0	Lusaka
Townap Textiles (Z) Ltd	5,1209,000.00	0	Lusaka
Swarp Spinning Mills Ltd	33,457,406.00	431	Ndola
Starflex Textiles Ltd	3,177,000.00	59	NDOLA
TOTAL FOR SUB SECTOR	**$85,283,958.00**	**2,141**	

Source: Zambia Investment Centre

Key Sector Opportunities

- The domestic market has been positive for those producing quality products. Cotton production still has potential if the out-grower scheme can be developed near the cotton buyers and supported

- Garments, protective clothing, security and school uniforms that are normally sourced locally have great potential. This is more so with the privatization and rehabilitation of the copper mines where new uniforms are required on a regular basis, the number of schools has also increased and all this offers opportunity.

- Companies interviewed stated that if they were to consider setting up shop in a second country, preference would be given to one that had a seaport. This is because the landlocked nature of Zambia makes it very costly to transport product for export to either the Durban or Dar es Salaam ports that are Zambia's main export outlets by sea.

- The European Union (EU) and South Africa are currently Zambia's main export market for the textile industry. The EU market is lucrative but is distant and competitors from Asia offer a big challenge.

- Second to the EU market is South Africa. The reduction of tariffs to gradually reach zero over an eight-year period under the SADC trade protocol will provide a an extensive market.

- AGOA, which is to benefit several African industries in the textile sector including Zambia, will provide an immense market in the U.S., although this may not be implemented immediately. Concerns raised are that the textile industries may not meet the required volumes as single units and could therefore consider joint ventures for production.

Constraints

Operating Constraints

- The Zambian textile industry is less focused on the domestic market due to low purchasing power and the presence of second hand clothing. As a result, they must adopt an export-oriented policy, which adds significant costs in terms of external marketing and transportation.

- High production costs are a result of high electricity tariffs, high communication costs, fuel costs and the tax structure. This makes the local textile products uncompetitive in pricing. Asian imports are landed in Zambia at the production cost of the equivalent local product.

- Further to above the duty on raw materials placed at 5% and import duty of finished fabrics and garments at 15% gives a 10% difference which does not match with the recovery on the cost of production. It is considered cheaper to import a finished product and some of the local textile industries have opted to buy the fabric or finished garment from Asia for re-sale.

- Investors found that credit lines for new capital equipment and expansion are not easily available locally. Thus most factories cannot purchase more efficient equipment that can produce larger quantities in less time. One manufacturer interviewed alluded to the old machinery as one of the reasons for being uncompetitive: a 20 year old plant that produces at one-fifth the pace of the more modern equipment used in the Far East today. In addition, funds for working capital are also not usually accessible as most firms are already heavily indebted from previous borrowings.

- The Zambia Textile Association, which, in 1992, consisted of 35 active companies, now only has 6 key companies. The companies surveyed stated that it was much more difficult for this smaller pressure group to aggressively lobby government for special support areas.

Policy Constraints.

- The textile sector is heavily labor and capital intensive. Thus, government must consider the employment implications in adopting policies. For instance, second-hand trading provides little formal employment to the population.

- The closure of the Indeni oil Refinery in Ndola due to fire gutting and the increase in world oil prices have caused the production costs to rise. While the Indeni plant for refining imported crude oil is due to resume operations soon, the production of light fuel oil (LFO) which is a cheaper oil product for the manufacturing industry has been halted by BP Zambia Limited as production cost has risen by over 300% in 1999 alone. It may therefore be necessary to either commence production again or find alternative sources of LFO as Heavy Fuel Oil (HFO) which is much more expensive.

- Low interest credit lines need to be negotiated if the textile industry is to expand. Facilities such as the World Bank's Enterprise Development fund of US$40m and the EU's Private Sector Development Programme (PSDP) may be available, these facilities are considered in accessible due to stringent conditions attached.

- The continuous depreciation of the Zambian Kwacha against major currencies has also negatively affected investors' returns in the local currency. Given this status, the cost of imported raw materials and spare parts is increasingly becoming more expensive in the local currency.

IRON AND STEEL

Zambia has a relatively small iron and steel sector that is largely a foundries and iron casting industry. The country does not produce any iron and steel per se. It imports raw steel mostly from Zimbabwe and South Africa where steel is produced.

Due to the Copper Mines on the Copperbelt, the steel engineering sector is developed on the Copperbelt Province where there is a ready market for its production. The iron and steel engineering companies produce parts largely for mining machinery. Thus, it has remained focused on the domestic market, more specifically, the mining area.

Product Types

Based on the survey for the Zambian environment, the Industry services can be divided into 2 categories.

(a) Engineering services for machinery parts
(b) Engineering services for construction hardware

Industries here use and trade in two types of steel, namely:

(a) Stretched steel, which is sold as is without any work on it such as rods or cornforce
(b) Worked steel, which involves cutting and bending

Machinery Parts

Industries on the Copperbelt produce various components for machinery such as bolts and nuts. These products are manufactured almost solely for the mining firms. During the survey, companies indicated that there was potential for further investments in the sub-sector despite the lack of local steel, which had to be imported from Zimbabwe and South Africa.

More recently, government has not encouraged the trade in scrap metal, which sometimes provided raw material for manufacturing of iron and steel components. Over the years, the extent of vandalism of electricity and communication pylons, wires and various steel structures had been increasing. These are vandalized or stolen for re-sale to manufacturers of steel works. Consequently, government has taken a keen interest towards scrutinizing dealers of scrap metal.

Reinforcements and Construction Hardware

The mining sector is a major consumer of reinforcement materials. With the current rehabilitation of the Zambian mines following privatization, the demand in this area has risen and suppliers in the country have pointed out that they may not have the capacity to supply locally.

Supply of construction hardware is mainly focused for the Copperbelt and Lusaka markets. However, the decline in the construction industry (particularly housing and office/factory structures) has been a negation to the trade. In 1998 for instance, the sector recorded a 10% decline in real value added in contrast to a growth rate of 33.8% the previous year. The supply of construction hardware from Europe and South Africa has brought competition to hardware suppliers.

Imports

Zambia does not manufacture any steel. As such, the steel that is used (mostly for foundries and casting) is imported from Zimbabwe where there is a rolling mill. The Zimbabwe Steel Company (ZISCO) recently opened a branch in Kabwe in the Central Province of Zambia but only offers limited steel types, namely, light fabrication and angles. The other local steel product supplier, Discount Steel, offers mostly stretched steel products imported from South Africa.

Export and Foreign Investments

Previous efforts to export products to DR Congo have been made but at a very small-scale level. The local manufacturers do not have sufficient capital to risk supplies to that country and end up not being paid or losing the consignment due to the war situation. However, manufacturers are optimistic that once the war is over, potential for trade with DR Congo will be sufficient enough to invest in that country in the long run. Initial indications are that companies would open up offices for distribution purposes.

The main thrust for investing elsewhere in the region would depend on the success of the local industry. Currently, manufacturers have limited capacity and inadequate funds for recapitalization and investments in modern machinery. Given this scenario, it is unlikely that considerations for second plants could be given in the short to medium term.

Local Investments

The Zambia Investment Centre has received a considerable amount of investment pledges in the sector totally since 1993. (See table below). While the amount of pledged investments honored has varied between 50 – 65% annually, it is hoped that this will increase after the privatization of the Copper Mines that were remaining, those under the Konkola Copper Mines (KCM) and Mopani Copper Mines (MCM).

Below is a summary of investments in the steel related sector.

Companies holding Investment Certificates in Manfacturing Sector from 01/01/93 to 30/11/2000

BASIC METAL INDUSTRIES	PLEDGED INVESTMENT ($)	PLEDGED EMPLOYMENT	DISTRICT
STAR STEEL AND WIRE PROD.	370,000.00	0	LUSAKA
METAL FABRICATORS OF ZAMBIA	10,080,000.00	0	LUANSHYA
METAL FABRICATORS LTD	300,000.00	70	LUSAKA
BOART ZAMBIA LTD	684,000.00	0	NDOLA
CHINA JIANGXI CORP. FOR INTE	5,031,810.00	0	LUSAKA
ELECTRICAL TECHNIQUES LTD	328,800.00	16	LUSAKA
SCAW LTD	12,400,000.00	0	KITWE
ASTRO WORKS LTD	390,830.00	55	LUSAKA
UNITURTLE INDUSTRIES (Z) LTD	107,500.00	0	LUSAKA
METALCAST INDUSTRIEAS LTD	35,000.00	0	NDOLA
HOME KRAFT ZAMBIA LTD	53,000.00	0	NDOLA
UNITY PACKAGES LTD	861,474.00	0	LUSAKA
SHIJI FEILONG STEEL ZAMBIA	600,000.00	80	LUSAKA
ALLOY METAL PRODUCTS LTD	390,296.00	0	LUSAKA
FOUNDRY & ENGINEERING CO.	196,708.00	0	LUANSHYA
CHISHINKA CORPORATION LTD	20,000.00	0	NDOLA
STAR STEEL AND WIRE PRODUCTION	370,000.00	0	LUSAKA
MINJEX ENTERPRISES LTD	152,780.00	8	KITWE
GENEREC (ZAMBIA) LTD	1,735,000.00	140	KITWE
TURTLE BLINDS MANUFACTURING LTD	80,000.00	6	LUSAKA
K.B DAVIES HYDRAULICS LTD	716,405.00	0	CHINGOLA
ZAMCHIN STEEL AND FOUNDRY	780,000.00	150	KITWE
COPPERBELT FASTER IND.	492,000.00	-	KITWE
TOTAL FOR SUB SECTOR.	**36,176,303**	**525**	

Source: Zambia Investment Centre.

Key Sector Opportunities

(a) Domestic Market

The privatization of the remaining major asset packages of the former Zambia Consolidated Cooper Mines (ZCCM) was finalized at the beginning of 1999. The new investors who have injected fresh capital into the mines and are currently rehabilitating and replacing most of the plant and machinery have provided a huge market for the iron and steel vis-à-vis foundries and casting sector.

The former ZCCM had experienced operational difficulties in the second half of the 1990s resulting in a steep decline in copper and cobalt production. Production levels of

1993 stood at 403,100mt. In 1997, this had fallen to 316,653 mt and further down to 252,972 mt by 1998. (source: ZCCM and 1998 Zambia Economic Report – GRZ). Difficulties in operations of the company were reflective of the deplorable state of plant and machinery. Due to lack of adequate investment, much of the capital equipment of the company was kept in operation without meaningful maintenance, replacement or overhaul. Consequently, over the years, wear and tear had taken its toll on the operational efficiency of the mining equipment leading to the continuing decline in output.

The repercussion for this was that ZCCM was failing to meet financial obligations to its suppliers. This in turn meant suppliers did not have capital to buy raw materials for further production. (Those that did borrowed, from commercial banks but at high interest rates of between 30-45% depending on the lending source of the working capital.) It was reported that payments from ZCCM sometimes took over 6 months for one invoice.

However, the new investors now guarantee payment for deliveries within 30 days, thereby enabling suppliers' to source raw materials for further production as well as forecasting. As earlier indicated, the rehabilitation work has offered great opportunities for further investments and due to limited local capacities, certain jobs are now being outsourced from South Africa.

(b) COMESA Market

For the Zambian industries, the COMESA market is not a focus area in the short to medium term. The neighboring DR Congo, which also has similar mines, is the main target market, but largely as a distribution destination. This is, however, dependent on the resolution of the war situation in the country, which makes it a high-risk market.

(c) Non-COMESA Export Market

There were no immediate major export markets pointed out by the Zambian industries. Without production of steel locally, final by-products would be uncompetitive for the far out export market, especially against Zimbabwe.

Key Sector Constraints

(a) Operating Constraints

Most Zambian industries operate with equipment purchased in the 1970s and 1980s; these are therefore inefficient by modern standards. At one company visited, it was pointed out that a competing firm in South Africa was using a fully automated plant while a number of processes, including welding, were manually done.

Investments in modern machinery require large capital outlays which most local industries are unable to finance on their own. This is necessary if these firms are to expand their capacities to meet the growing demand.

The limited sources of finance locally other than for working capital are a set back for further investments – both locally and in neighboring countries.

The cost of electricity is considered high in most industries. There is further outcry that the Zambia Electricity Supply Corporation (ZESCO) exports electricity to Zimbabwe at subsidized rates – at the expenses of the Zambian consumer. This gives the Zimbabwean industries undue advantage over the Zambia producer.

ZISCO, which recently opened a branch in Zambia, does not supply the required worked steel types that are widely used by the local manufactures.

(b) Policy

The government needs to closely monitor scrap metal dealers to guard against vandalism. The country faces communications and electricity disruptions due to vandalized equipment, and this in turn disrupts production. Further, the respective service providers subsequently increase tariffs to mitigate these huge losses on repairs and replacements.

Other factors to production that only add to the final price need constant review such as the tax structure, VAT refunds and Duty Drawback schemes.

ZIMBABWE

Zimbabwe is a member of the COMESA Free Trade Area and was, until the recent land redistribution exercise by government (which has slowed down economic growth), considered a leading investment country in the region. The country gained independence in 1980 and still has large investments owned and run by former white settlers. It has a relatively well-developed infrastructure base with tourism, chemicals, electrical equipment, mining, and oil and gas industries. The agriculture sector is also large with tobacco, cotton and cattle rearing being the main areas of activity.

Zimbabwe exports gold, tobacco, iron, steel, ferro-chrome, asbestos, cotton lint, nickel alloy, copper and beef. Its main imports on the other hand are petroleum products, machinery and chemicals.

Existing investment conditions include prohibition of the nationalization of private property without compensation – which is provided for in the constitution. Repatriation of capital is permitted while corporate tax of 15% is offered after a 5-year tax holiday. Other incentives include:

- Duty free importation of raw materials used in the manufacture of goods for export.
- 100% remittance of profits and dividends for new investments
- Exemption from sales tax on goods and services
- Permission for foreign companies to borrow locally.

Though some policies have been temporarily suspended due to limited foreign exchange availability, the country still has wide potential for investments. There is potential in areas such as manufacturing, mining, tourism agricultural equipment, agro-food, irrigation, car and truck assembly.

Textiles

Overview

The textile industry was established in 1940 and is dominated by five major producers. These five companies account for the bulk of exports. Currently, the industry employs a workforce of 13,000 people. There are around 800 clothing manufacturers of which about 600 employ less than 30 persons. 80 companies account for 80 per cent of total production and over 95% of the sector's exports. These 80 companies employ 15,000 people. Europe is the largest export destination while Botswana and RSA are very important regional markets for both products.

The textile industry started up-grading and modernizing its equipment in 1990 due to trade liberalization. The industry's total capitalization is estimated to be between Z$1.2 - Z$2 billion. Modernization of plant and equipment is on going. However, the speed depends mainly on the cost of borrowing which in past years has widely varied causing uncertainty. The textile industry is capable of spinning 48,000 tons of cotton grown in Zimbabwe; Capacity utilization in the textile industry is estimated at 50 - 65%.

Production capacity increased phenomenally in the 1980s. There has been significant export growth in textiles. The exports are mainly to Europe, Botswana and South Africa. More than 35% of exports of textiles are in the form of yarn and grey cloth.

There are five major companies, which are dominating the textile industry. These companies account for the bulk of the exports in the textile sector. The major companies are: Zimbabwe Spinners and Weavers, Merlin Ltd, David Whitehead Ltd, Consolidated Textiles and Cotton Printers. There are few medium sized companies specializing in knitting of woolen fabrics.

Opportunities

The AGOA act has created numerous opportunities for Zimbabwean textile and clothing firms. AGOA allows Zimbabwean clothing manufacturers to enter the US market duty free with garments. Very few Zim manufacturers currently produce for the US marketplace. In most cases, manufacturers will need significant improvements in their technology and capacities in order to meet the order quantities and quality that is expected by US firms.

Regional opportunities are less prevalent, although there are small-scale opportunities to export into Zambia, Namibia, Malawi and others. In recent years, these markets have dramatically decreased in size due to the presence of second-hand clothing (which is prohibited in Zimbabwe). However, as the markets mature and per capita incomes increase, consumers will drift towards new goods.

The presence of high quality cotton also presents opportunities to sell to other countries seeking to reach the US marketplace through AGOA. Kenya, Mauritius, and Madagascar are all COMESA Member States with investors seeking to export to the United States. In the case of Kenya and Mauritius, minimum local content is required. Zimbabwe could meet the demand through the upgrading of its textile industry. Currently more than half of Zimbabwe's cotton is exported at world market prices unprocessed.

Constraints

Investment Capital: In order to tap the markets presented by AGOA, significant investment will be needed in fixed assets in Zimbabwe. Investments in textiles manufacturing equipment and modern CMT equipment will significantly upgrade the productivity and quality of the output.

However, access to foreign currency is extremely limited. Firms have an extremely difficult time sourcing funds for raw materials, much less capital goods. External investment would likely solve this problem, but with the current political climate and the accompanying risk, it is likely that foreign investors would first locate in Kenya or Mauritius (or outside of COMESA in Botswana or South Africa).

Political Unrest: The current climate makes operating on a regular basis difficult for many manufacturers, as many days are lost to strikes and other events. In an industry with extremely narrow margins and short delivery cycles such as the Cut-Make-and-Trim business, this could represent the difference between loss and profitability.

Local Markets and Used Clothing: While relatively small compared with the vast US and European marketplaces, the local COMESA marketplaces have become very difficult to penetrate because of the presence of used clothing. Zambia and Malawi in particular have gone from highly protected marketplaces which hosted large clothing industries to open markets with a large presence of used clothing and cheap imports from the Far East.

The marketplace for clothing in COMESA Member States is largely for lower grade, less expensive clothing that what would be sold into the European or US marketplaces. Therefore, a company wishing to serve the local marketplace would have to make short runs, using lower grades of cotton and less expensive production techniques.

Distribution Networks: Many of the COMESA Member States lack very strong distribution networks. The best networks that exist for clothing are informal and are largely made up of used clothing and imports from the Far East. Formal networks tend to be owned and operated by South African firms that buy goods exclusively from South African manufacturers. Many Zim manufacturers complained of the difficulty in reaching the marketplaces.

Information. There is a great void of information on marketplaces in COMESA, particularly for markets in Congo, Rwanda, Burundi, and others. Most Zimbabwe firms won't even look towards East Africa. The costs of acquiring such information usually requires a trip by management to investigate the terrain.

Steel and Steel Products

Overview

Zimbabwe Iron and Steel Company (ZISCO) is Zimbabwe's only iron ore mining company in Zimbabwe. Subsidiary BIMCO (Buchwa Iron Mining Company) currently exploits the Ripple Creek mine, which provides iron ore and limestone as feeds to the ZISCO steelworks. The ZISCO steelworks are sub-Saharan Africa's second largest steel industry (after South African ISCOR).

Local car assembly plants are in the process of rapid expansion to meet the competition of imports now more freely available since the lifting of import control measures. Zimbabwe plans to increase its capacity in order to produce utility vehicles for export to neighboring states

Steelmakers Zimbabwe is the newest steel producer in Zimbabwe, operating a mini-mill utilizing the scrap from ZISCO. Steelmakers is a Kenyan company that expanded into Zimbabwe to take advantage of the short supply of steel and the presence of the scrap.

Zimbabwe has a range of firms ranging from the intermediate products manufacturers to manufacturers of finished goods.

Opportunities

Marketing opportunities appear to exist in all aspects and products of steel and steel products throughout the region. The major competition for the markets come from South Africa, which must contend with much higher transport costs (due to the distance of travel).

Most companies interviewed felt that Congo provided significant opportunities, particularly with its mining potential. Most companies felt that they could effectively compete with South African companies throughout the region and that they could expand considerably.

The industry is characterized by capacity limits throughout with under exploited marketplaces.

Constraints

Supply: The major constraint to meeting demand has been in supply, beginning with ZISCO's inability to meet the demand of all of the manufacturers. Many manufacturers have turned to South African steel as a result at a higher cost. However, ZISCO has commissioned new mills increasing capacity substantially.

Investment Finance: Similar problems are faced by steel manufacturers that are faced by textile producers, namely access to investment finance. Upgrades to capacity are highly cost intensive. The lack of local foreign exchange makes it next to impossible for local manufacturers to finance expansions unilaterally, Bank interest rates are prohibitive and variable. Recent fluctuations in interest rates make borrowing highly risky. Foreign investors are concerned now about the political environment.

Clients Access to Forex: Some exporters of steel have had problems with their clients' access to foreign exchange. Relationships have sometimes been based on cash or payment in advance. This stunts the growth of business relationships.

Delays in Transportation: While transport costs have decreased, partially due to the efforts of COMESA and partially due to increased competition, some delays still exist and trucks are stopped and searched unnecessarily. The largest component of steel cost can be transportation (depending on the destination) and the inconsistency of the delays, fees, and roadside stops and searches make the final costs uncertain.

Information: There are large numbers of tenders regularly released that never make it through the member states of COMESA. Opening up tenders throughout the region would create competition, decreasing costs for governments and improving quality. Because COMESA Member States' companies are typically not as sophisticated in their marketing as South African firms, and are not as aggressive, typically they are at a disadvantage when it comes to pursuing tenders in other countries.

Appendix C

COMPARATIVE ANALYSIS

OF

INVESTOR ROADMAP STUDIES

Appendix C

A Comparative Analysis of National Investors Roadmaps in the COMESA Region[*]

A. Introduction

The Investor Roadmaps that have been undertaken in a number of countries have been very effective in highlighting areas of bureaucracy and burdensome regulations that constrain private investment. The Roadmap is an analytical methodology that delineates in a step-by-step fashion the various processes a business much complete to become operational in full compliance with all law regulations, procedures and institutional practices in a given jurisdiction. It combines diagnostic analyses specific recommendations consensus-building efforts and technical assistance to facilitate reform efforts.

This report draws on the proven National Investor Roadmaps developed over the last several years in several COMESA member states and from research of existing documents on other barriers. Countries where studies have been conducted are Kenya, Malawi, Mauritius, Namibia, Swaziland, Tanzania, Uganda and Zambia[1]. Cognizance is also given of efforts under the Regional Integration Facilitation Forum-RIFF (formerly called Cross Border Initiative-CBI) being coordinated by the COMESA Secretariat, where a Roadmap for Investment Facilitation was also developed.

The following sections of this report provide an overview of the investment environment and critical issues at hand, a comparative analysis of investment procedures and constraints faced as well as conditions or measures required to reform the region into an attractive investment area, as individual states and as indeed a Common Market. The main questions addressed in many National Investment Roadmaps as well as the Cross Border Initiative (CBI) Roadmap for Investment facilitation include the following:

- *why are African countries failing to attract sufficient inward investment?*
- *what are the general conditions for investment facilitation?*
- *which aspects of a sound investment regime would call for regional harmonization, and what would be a good approach towards harmonization?*
- *what are the priorities?*
- *where could collaborative efforts be made for a mutual advantage?*
- *and, how could agreed priority actions be implemented?*

[*] Prepared by Musapenda Phiri, Independent Managament Consulting Services, Lusaka, Zambia.

[1] In view of the time lag between the National Roadmap studies and development of the Regional Roadmap, reforms to a number of the issues raised then may already be in the pipeline or undertaken for some of the countries (Not withstanding this, the COMESA grouping should and will continue to emphasis the need for sustained reforms.

Key Conditions for Attracting Investment

The *CBI Roadmap for Investment Facilitation* highlights many steps that have already been taken within the CBI framework towards investment facilitation (as outlined below); but a lot more needs to be done. The key conditions for spurring further private sector interest, reducing investment risks, and bringing perceptions closer to actual ones in the region are:

- maintain political and social stability and security;
- sustain improvements in economic management and trade reform (note that the longer improvements are sustained, the greater the confidence there is that policies will not be reversed) and make efforts to tackle the debt overhang;
- lock in good trade policies through WTO, regional integration, and strong central banks;
- reduce transaction costs;
- supply better infrastructure (already under way through the sale of some public utilities to private firms and through private participation in new infrastructure projects) and improve Labor standards (universal experience shows that the long-term viability of investments – as well as the international competitiveness of business organizations – is directly influenced by human capacities and skills than a host country's natural endowments);
- support trade and investment promotion, the creation of stock markets, merchant banks, venture capital, leasing companies, insurance and investment funds; and
- maintain good governance; in particular, root out corruption and remove the conditions that give rise to it.

The list of conditions above shows that many factors influence investors' attitudes and decisions, and it is evident that economic malaise or conflicts in one country usually have spillover effects in neighbouring countries. Therefore, it should be noted that these conditions are also paramount for regional integration and development in general; i.e. seeking to coordinate efforts and harmonize approaches at a time when globalization is affecting economies worldwide.

B. Investor Roadmap Comparative Analysis

The Investor Roadmap studies show that several countries in the region have not taken strides to eliminate administrative barriers to investment nearly as well as Mauritius, Namibia, Kenya, Uganda and Zambia. In fact, in the latter half of the 1990's, the COMESA region has fallen behind some of its African neighbours, such as the West African states, in procedural reform. In addition, discussions indicate that COMESA has not seen the desired increase of foreign direct investment (FDI) reflecting in some cases a net negative FDI position. While many countries struggle with the improvement of their investment climate, valuable lessons can be drawn from countries, and regions that have been successful.

The Roadmap is an in-depth analysis of the steps required of an investor to become legally established (and operational for business) in a certain country or region. The licenses or approvals required, their application procedures, and criteria for qualifications are all detailed in the National Roadmaps with the fees or processing payments also noted, as are typical processing times for each step. In most cases these are average processing times reported by the agencies for projects with no unusual characteristics or problems. Actual processing times encountered by firms may well be significantly longer, and the analysis section of the Investor Roadmap reflects where the public and private sectors disagree on how long a given procedure takes.

In addressing the administrative and procedural barriers facing an investor setting up a business in another country in the region, the roadmap model covering four main process areas has been used. These are:

- Employing
- Locating
- Reporting to Government, and,
- Operating

2.1 Employing

Foreign Investor Entry Requirements

This section looks at issues related to obtaining temporary and permanent residency permits for investors; securing employment permits for expatriates and; handling local labor relations.

Technically, all foreign investors that conduct business research or negotiations are required to obtain a visa to enter any country in the region. While most nationals from within COMESA do not require visas when traveling particularly those in the Commonwealth grouping, there is an exception to a few countries. However, all foreign investors that start a business in another country are required to have a self-employment permit or an entry permit.

The procedures for obtaining a visa to visit depend on one's nationality. One universally applicable requirement is that all visitors must have "return air tickets if traveling by air, or sufficient funds to cover the cost of their return journey."

Citizens of COMESA may obtain visas directly from the missions and honorary consulates in other countries. Non COMESA and selected member countries must apply for visas directly from the Immigration Office in the capital city of the country to be visited or upon arrival at a port of entry in Zambia, applications are accepted via post or in person, and visitors are advised to apply for a visa one month prior to entering the country. Application forms for Mauritius are available at general sales Agents for Air Mauritius as well. Visas are generally valid for three months except for Mauritius which may offer a 6 month validity period.

Required documentation includes:

- Application forms for a visa
- Recent passport-sized photographs
- Valid passport

- Cover letter or copy of a work permit from an authorizing sponsor or a prospective employer specifying in brief detail the nature of the intended business transactions.

If an investor must extend his stay beyond three months, a temporary permit valid for another three months is issued. This permit may not be extended to cover a period in excess of twelve months. In the Mauritian case, if a holder of a multiple visa is to exceed 90 days in one calendar year, that individual must apply for a work permit.

Obtaining a Self-employment Permit

Immigration and Investment Promotion Agency (IPA) officials agree that obtaining an investment certificate facilitates issuance of a self-employment permit. To obtain a self-employment permit, an investor with an investment certificate must fill in the application form and attach, inter alia:

- Passport size photos
- Bank statement as proof of available capital
- Valid copy of Certificate of Registration of business
- Copy of the investment certificate issued by the IPA
- Application fee

Investors are not obliged to obtain an investment certificate in Zambia, but without it they are required to submit a business plan, curriculum vitae, and information about the planned amount of investment capital in addition to the documents listed above. An investor who is denied a self-employment permit can appeal to the Minister of Home Affairs.

Renewal of Self-employment Permit

Self-employment permits must be renewed as they expire. Applications for renewal can be submitted to the Department of Immigration. In general, self-employment permits are renewed only once for three years before the applicant is requested to consider applying for an entry permit. An inspection of the project is conducted when a request for renewal is received, and renewals of entry permits usually take six to twelve weeks depending on the type and size of the investment involved.

Obtaining an Entry Permit

An investor holding a self-employment permit for a period of four years becomes eligible for an entry permit, which entitles the holder to enter, re-enter, and remain in Zambia, and engage in the occupation specified by the permit. Immigration officials state that processing times range from two to three weeks.

An entry permit becomes invalid if the holder does not enter the country within six months of the date of issue, or if he or she is absent from Zambia for a period in excess of six months without notifying the Immigration Officer, in writing, that he or she proposes to return to the country. An entry permit will also no longer be valid if a person is absent longer than twelve months. To obtain an entry permit, an investor must:

- Fill in the necessary application form in duplicate, and have it attested by a Magistrate or Commissioner for Oaths before dispatch, or if in a foreign country, by a consul.
- Once an application is approved, the applicant is required to submit a certificate signed by a radiologist within the preceding six months showing the applicant to be free from active pulmonary tuberculosis at the time of entry to Zambia.
- After ten years, including four years on a self-employment permit and six year on an entry permit, an investor is invited to apply for Zambian citizenship through the Ministry of Home Affairs' Passport and Citizenship Office.

Investor Entry Analysis

Investors cite few problems with foreign investor entry procedures in the region. Most investors interviewed were much more concerned about bringing in expatriate staff than obtaining permits for themselves. In 1997, approximately 9,120 expatriates held valid work permits in Kenya, compared with nearly twice the number 20 years earlier *(Kenya Investor Roadmap)*

One area of concern raised by investors is that the review of applications for permits is not transparent. Many in the private sector insist that if a concrete system in place for evaluating and approving permit applications in a consistent and timely fashion, it is not evident to the public.A few investors credit the Department of Immigration for its limited attempts to consult the private sector about immigration policies.

Whereas the Department of Immigration says that it takes an average of 2 weeks to approve an application for a self-employment permit, many investors interviewed in most countries said that the process typically took 4 to 12 weeks, with longer delays reported. Several investors said that obtaining an entry permit took as long as 12 to 24 months.

Businesses engaged in trading and, to a lesser extent, services complain that they are not considered *bona fide* investors by immigration officers and thus face difficulty obtaining self-employment permits. Immigration Officers agree that they don't tend to regard traders as "serious investors," and, resultantly, rarely approve their requests for Entry or Self-employment Permits. Furthermore, there is sharp disagreement about the quality and availability of data about what types of businesses countries need and local labor capacity, raising concerns about how well informed the Immigration approval Committees are when assessing an applicant's potential benefit to a country. Foreign chain stores seem to be the only trading businesses that are treated as foreign investors.

Some investors suggest that the need to follow up on an application creates unnecessary time and financial costs, especially when an investor must come from out of town to do the follow-up, and indicates that the internal administrative and record-keeping procedures of the relevant departments can be improved.

An investor may not apply for a self-employment permit or an entry permit at a national embassy elsewhere. Rather, he must file an application in the country of destination or via mail (where permissible). This lack of capacity at embassies creates an extra cost and time delay for an investor who has made the decision to invest after he returns to his home country.

Investors are sometimes required to submit detailed business plans to evaluators who typically are not skilled in the evaluation of such plans, and immigration officials concede that their onsite investigations of businesses are rather superficial. Numerous other public agencies, several of which are more qualified to assess a business plan, review proposed investments and conduct inspections as well. Investors widely regard the immigration inspections as one of many unnecessary burdens imposed by the governments. It is unclear why the Department of Immigration will not rely on other agencies to satisfy its reporting requirements.

As with other inspections, investors and public officials alike state that the private sector is usually responsible for arranging and paying for Department of Immigration inspectors' transportation and incidentals. Not only is this an unusual burden to be asked of the private sector, it represents significant cost in time and money, especially for rural enterprises.

Requirements to Bring In Expatriate Labor

Application Procedures for Obtaining Employment Permits

Employment permits are generally issued for an initial period of up to three years (Zambia, Mauritius, Malawi) and two years in Kenya and extended for another two years, after which a fresh application must be submitted to the Immigration Department for renewal. One factor that influences the duration of an employment permit's validity is the expiration date of an expatriate's passport. Employment permits are normally granted on the condition that the investor has made an attempt to fill the opening with a local person and no suitable candidates were found.

In Zambia, the Investment Act provides that an investor who commits a minimum of US$250,000, or the equivalent in convertible currency, and employs a minimum of ten persons is entitled to a self-employment or entry permit and will be assisted by the Investment Centre in obtaining employment permits for up to five expatriate employees.[2] The Department of Immigration suggests that it will consider more than five applications for employment permits if each candidate is qualified and not duplicative of a Zambian national.

In Kenya, work permits (good for two years) are issued by the Kenyanisation Personnel Bureau of the Department of Immigration, which is part of the Office of the Presidency. Renewal is subject to acceptance of proof that the conditions for work have not changed. While there are no percentage limits on how many foreigners may be approved, the Immigration Department closely monitors the number of expatriate employees in Kenya.

Approvals of employment permits may take from two weeks to three months. The following are some of the more common documents must be submitted for this application:

[2] As stated in the Zambia Investment Act of 1993, which is amended by 1996 and 1998 acts.

- Certified copy of the applicant's highest educational status and any additional qualifications,
- Details of previous employment
- Official Letter from the prospective employer explaining steps taken to employ Zambian citizens to fill this vacancy (i.e. justification for recruiting an expatriate)
- Medical certificate
- Police clearance
- Application fee

The requirements vary from one country to another but these are the requests an investor may expect. However, key in Namibia, Swaziland, Zimbabwe, Zambia and Malawi as in most other regional countries now is that, a permit will only be granted if the skills from the applicant cannot be found or are in short supply in the country; and the employer must prove the case for hiring a foreigner.

Analysis

Issues

According to the business community, obtaining employment permits for expatriate staff is one of the most problematic employment-related process in the region. The issue involves both policy and implementation. The government's 'nationalization' or 'localization' policy for Labor (*called Kenyanisation, Zambianisation, etc.*) whereby indigenous people are to be given preference for appropriate jobs and gradually replace expatriate managers at private companies, is cause for concern for some in the private sector, because it intrudes into the decision-making process of companies. Some in the private sector suggest that if a country truly wants to promote private participation in the economy, the rights of investors to hire whomever they want must be protected. Given the fact that most local labor is less expensive than foreign labor, these businesspeople argue, a company's own self-interest would achieve the government's goal of increasing employment among appropriately trained locals.

Others in the local business community suggest that while they are sympathetic to the governments' policy of ensuring that citizens get first consideration for new jobs, the governments' implementation of this policy has the effect of discouraging new investment and creating considerable risk for operating businesses. The risk is caused when an investor has committed to operate a business without knowing for certain who his or her staff will be and how long they will be allowed to work in that country. The following specific issues were identified as a result of the analysis of the Employment Permit procedures:

The same concerns about the transparency of the Department of Immigration's review process apply to employment, self-employment, and entry permits. Members of the business community characterize the Department of Immigration's problems differently, asserting that no consistent standards are applied to employment permit applications and the discretion of an individual within the department or on the application review committee is of paramount importance. As a result, it was noted in the National Roadmaps that, employers say they rarely know if applications for initial and renewed employment permits will be judged favourably, adding to the frustration and risk associated with doing business in a country.

Many in the business community perceive that the methodology employed by the Departments of Immigration and Labor for determining what skills are available locally lacks thoroughness and consistency. Many private companies report, that the approving authorities do not seem to assess accurately what skills are unavailable.

The Department of Immigration must make the process for considering employment permits much more transparent. To increase the level of transparency and accelerate the review process, it is recommended that a short list of specialized skills that are locally unavailable be published. For example, medical doctors, engineers, and production managers could be included on the short list, and employers could be exempted from going through the long advertising and approval process for these positions. Thus, transparency is linked to the methodology used to assess the skill deficits that exist in a particular country.

In the meantime, the law and the Department of Immigration's policy guidelines for implementing the law must be clarified (e.g., in the Zambian situation where five expatriates are automatically guaranteed work permits after an investor has committed $250,000 and employs ten people). Public officials state that there are contradictions between the Investment Act and other acts relating to employment and immigration, and these pieces of legislation should be harmonized to create a more stable environment for investors.

As with the self-employment permit, the process of acquiring an employment permit is reported by investors to be too slow (see Table 3 overleaf). Investors perceive that the amount of time it takes to get a permit depends on how strong a case one builds, and at the same time investors are rarely clear what the committee is looking for. The Department of Immigration says that the vast majority of applications are processed within two weeks, but many in the private sector state that response times tend to take six to eight weeks. Several investors state that personal attention, including visits to immigration headquarters in the capital city and regular phone calls, is required to ensure that an application moves through the review process.

Renewals for employment permits are not granted automatically, and at the same time businesspeople report uncertainty about what is required of them to meet the requirements for 'localization'. Another area of concern is that the Department of Immigration expects investors to localize key positions within a number of years. The measures undertaken towards regional integration and the proposed COMESA Customs Union with a Common External Tariffs (CET) and customs union in the long run should allow for free movement of persons and Labor and it would be prudent to begin to relax Labor issues now.

Local Labor

In general, investors report that hiring local Labor in the region is fairly easy due to the lack of regulatory constraints and the abundance of Labor, particularly unskilled and semi skilled. The

Mauritian Labor force is reasonably educated as well as bilingual in English and French. However, some companies report that termination of employment can be problematic and is often costly.

Hiring and Terminating Procedures

An investor who seeks to employ local labor may advertise the opening or access one of the various Public Employment Service Offices. However, due to an abundance of local labor, employers report receiving applications for open positions before they are advertised. If the employer decides to hire someone, the following general procedures applies:

Records to be Kept by the Employer. Every employer must maintain a written record of all employees, which must be kept readily available for examination by an authorized officer, who may require the record for any period relating to the contract.

Retrenchment and Dismissal. The Labor laws on retrenchments and dismissal vary and highlighted below. The Labor laws in Kenya distinguish among three types of termination, namely normal termination of service, summary dismissal, and termination on account of redundancy. It is still necessary (under the Trade Disputes Act) to hold meaningful discussions with respective trade unions and labor officers on the terms of the redundancy. This is because termination of employment through redundancy legally constitutes a trade dispute, regardless of whether or not there is an agreement between the employer and the employees concerning the terms of redundancy.

In practice, it is difficult to dismiss an employee after the initial standard probationary period of three months (unless the worker deliberately damages property, is absent without approval or good reason, displays gross inefficiency, or commits gross misconduct). Employers often extend the probationary period through attenuated training because of the difficulty involved in dismissal.

In Zambia, if the employee to be terminated is unionized, the employer must sit and discuss the matter with the trade union and include a retrenching package. If the employee to be terminated is not unionized, the employer informs in writing the local labor officer who is responsible for making sure that the employer observes the minimum requirements of the Labor Act and related legislation.[3]

Section 64 of the Zambian Employment Act gives both employees and employers the right to complain about the other party due to any legitimate reason to a labor officer at a Local Labor Office. The Labor Officer may use collective bargaining to resolve the issue where applicable, and if it is not resolved at this stage he may opt to go for arbitration. For any labor and industrial relations matters, the aggrieved parties can go to Industrial Relations Court and may appeal to Supreme Court, if still unhappy. Similarly in Namibia, before dismissing an unsatisfactory worker, adequate warning must be given.

There are considerable difficulties in dismissing workers. As an illustration, according to the Federation of Swaziland Employers, virtually every dismissed worker takes their case to the Industrial Court. Attorneys regularly advise employers to settle out of court as a less expensive alternative and one attorney noted that 80% of all cases are settled out of court. The employers case

[3] See the discussions of redundancy benefits under fringe benefits for the minimum requirements.

must be proven beyond a shadow of doubt. Compensation levels are high and range between 6 - 36 months of wages. When including back pay for time since the trial began (typically 12-18 months), compensation and severance pay can reach levels as high as 8-9 year years according to one source. In addition there must be written record of official warnings. Moreover reinstatement is mandatory *(Section 393 of the Swaziland Roadmap)* This is a typical example of problems related to employee dismissals in most countries in the sub region and employers must be wary. The extent of this problem however, varies among countries.

Working Conditions

Unions

The Kenyan law provides that as few as seven workers may establish a union (5 in Mauritius and 10 in Zambia), provided that the objectives of the union do not contravene the law, and that another union does not already represent the employees in question. In several COMESA countries, workers are free to organize themselves in either trade unions or workers' councils. It is not compulsory for the workers to join a trade union. These trade unions negotiate conditions of service for their members with employers either at the company or industry level, depending on the type of recognition agreements that are in place.

Generally, the collective agreements that are negotiated between management and unions apply to the unionized employees and cover such aspects of employment as grading and wages, hours of work, protective clothing, leave, and medical benefits. The collective agreements normally cover a period of one to two years, and may be negotiated annually, depending on the cost of living and on account of fluctuations in the level of inflation. In this regard the Kenyan Government also set up a Permanent Arbitration Tribunal to inquire into and make awards on industrial disputes that are referred to it.

Wages and Salaries

Management normally fixes the conditions and salaries for non-represented employees, while those for represented employees are negotiated through collective agreements. Minimum wages and conditions of employment to apply in these industries are determined by respective government authorities., the Labor Commission or ministry.The basic minimum wages are laid down by law and employers normally pay above the minimum or operate incentive schemes to attract the best people. Overtime is payable at 1.5 times the normal hourly wage, except for Sundays and public holidays, when the rate is twice the hourly wage.

Namibia has no minimum wage, but the Act provides for a wage commission to be set up if the need arises.

Fringe Benefits

Pensions. Membership in a pension scheme is a common condition of employment in the region. Contributions to the pension scheme are typically shared equally between employee and employer. Up to a specified maximum salary. In Zambia 3.5 percent of the employee's basic salary goes to the

National Pension Scheme Authority (NAPSA, formerly called the Zambia National Provident Fund), and the employer contributes the same amount, up to a given ceiling amount for contribution.

Medical coverage and maternity benefits.

Some employers provide health and medical coverage through memberships to private clinics to which the employer and employee contribute at agreed rates. Other employers have their own company clinics and hospitals. The Minimum Wages and Conditions of Employment Act in some countries (such as Zambia) also obliges employers to grant an employee full pay should illness make the employee unable to work, subject to the production of a certificate from a registered physician. The maximum period for which such benefits are given is three months at full pay, followed by another three months at half-pay. The act also provides that female employees be paid maternity leave up to a maximum of 90 days provided they have worked for the employer for a minimum of 24 months. Maternity leave in Mauritius is 3 months (provided they have worked for one year) and this period is regionally universal. In Uganda however, paid leave is limited to one month with the rest of the period unpaid.

Housing.

This is no longer mandatory in most countries. (Zambia's Act 15 of 1997, for instance, amended the Employment Act, thereby overturning the statute that mandated that employers either provide housing for employees or pay a housing allowance).

Overtime.

The collective agreement covering a given sector normally stipulates the hours to be worked. Normal working hours for general employees per week are given below:

Mauritius	-	45 hours
Namibia and	-	45 hours
Zambia,	-	45 hours
Kenya,	-	52 hours
Uganda	-	40 hours
Swaziland	-	48 hours.

Office hours are typically from 07:00 (in Malawi), 07:30 or 0800 to 16:30 and 17:00 hours Monday to Friday and 0800 hours to 1300 hours on Saturday. Outside the retail sector, most companies do not open on Saturday. In Kenya, Namibia, Zambia and Tanzania, overtime is paid at one and a half times the normal rate for weekdays and extra hours on a Saturday, and twice the normal rate for Sundays. Overtime accrued on public holidays amounts usually to twice the regular wage.

Annual Leave.

Employers are required to grant leave of absence on full pay at the rate of usually between 1.5 – 2.5 days per month worked. Employees are entitled to 18- 30 consecutive days leave per year. There are also a number of public holidays (which include Christmas, New Years day and Independence/National day) as indicated below:

Country	**Number of Holidays In A Year**
Mauritius	13
Swaziland	12
Tanzania	14
Uganda	12
Zambia	14

As in many other countries in Southern Africa, industrial establishments in the COMESA region commonly close prior to Christmas and reopen after the first week in January. This period is referred to as the “industrial break.”

A sick employee, however, may be discharged on the recommendation of a registered medical practitioner or medical institution designated by the employer. Some companies also grant female employees one day of leave per month to accommodate menstruation.

Special leave and funeral assistance.

In Zambia, the Minimum Wages and Conditions of Employment Act obliges employers to grant an employee seven days of paid leave on the death of a spouse, child, mother, or father. In the event of the death of an employee, spouse, or registered child, the employer is also obliged to provide funeral assistance in the form of a funeral grant consisting of a standard coffin, cash, and food.

Transportation allowance.

Unless the employer provides transport to an employee whose duty station is beyond a certain radius from his area of residence, the employer may be required to pay a monthly allowance for transport expenses.

Lunch allowance.

An employer may also wish to provide a lunch allowance unless the employer provides a canteen at which the employee may obtain “wholesome and adequate meals” free of charge, or subsidized rates. This in most cases is not mandatory and is given at the discretion of the employer.

Redundancy benefits.

For this, employers would be required at minimum to pay at least one month’s notice and redundancy benefits of not less than two months' basic pay for each completed year of service, in the event of declaring an employee redundant (when the employee’s contract of service is terminated by the reason of redundancy). This is the case under Zambia’s Minimum Wages and Conditions of Employment Act.

Industrial Relations

Strikes are legal, except in the case of the essential service sectors, such as hospitals, fire services, electricity, and water and sewerage utilities, provided that the procedures laid down in the Industrial and Labor Relations regulations have been followed. The right to strike is provided for but *with adequate notice* but employers and sometimes government authorities must consent to a strike for it to be considered legal.

Profit Sharing

Some profit-sharing schemes are in operation in some countries, varying from business to business. In addition, several local firms have introduced share participation schemes for their workers, usually at the management level. In December it is also common for companies to pay a Christmas bonus, normally equivalent to a month's salary, to all levels of employees.

Social Security

Employers are also obliged by the Social security and Workmen's Compensation regulations to make contributions for pensions and for employees who are likely to be exposed to accidents or occupational diseases respectively. Companies are required to pay into the established fund, and different industries pay different percentages, usually ranging between 1-4 percent of a worker's salary.

Equal Opportunities

In a number of countries, law and practice does not allow discrimination on account of race, tribe, place of origin, political opinion, color, creed, or gender. In Swaziland however, women may not be employed to work underground in mines (and this is in line with the International Labor Organisation provisions).

Foreign Personnel

There are no predetermined restrictions on the number of foreign employees who may be employed by a single employer. However, businesses are expected to localize employment as a matter of priority.

Issues

Regarding investment performance requirements, Franklin R Root *(International Trade and Investments,1990)*[4] states, the most common LDC requirement was the use of local Labor, followed by export and import limitation. The most common requirement in industrial countries was also local Labor.

[4] Franklin R Root, Investment Performance Requirements Discussion looking at Public Policies toward the Multinational Enterprise, International Trade and Investments, page 677, University of Pennsylvania, 1990)

Many companies are critical of the National Social Security/Provident Funds and Workmen's Compensation Funds because they represent additional financial and administrative burdens, and, based on inflation and the funds' administration, are of little benefit to workers.

The legal system in general needs strengthening, but one particular concern among investors is the slow pace and, at the lower levels, potential for corruption in the courts. Investors report that following the Labor authorities' regulations regarding the termination of employees does not necessarily protect a business from lengthy and costly law suits. While these Labor regulations are clear, there is no quick or easy way to dismiss suits that lack merit, and investors routinely either settle with a worker, whether or not the employee was fired for cause, or opt to finance a long and costly defense in a generally unsympathetic court.

Recognizing the need for trained manpower, regional governments say they encourage industry and commerce to invest in training. However, investors feel that the courses offered in some countries through, in Zambia for example, the Department of Technical Education and Vocational Training are not necessarily aimed at the needs of their respective industry.

2.2 Locating

This chapter focuses on the various aspects of site development in the COMESA countries, including land acquisition, building permits, factory layout, and utility hook-ups. Site location is the most logistically complicated process for a new investor in a COMESA country, given the wide array of potential players. Land may be leased from any of the many levels of government that possess land assets, or purchased or rented from individuals and companies. Building permits and utility hook-ups, particularly water and sewer, are obtained at the local level, with each locality prescribing slightly different procedures and requiring various processing times.

With this in mind, it is not feasible to list, in detail, all the potential variations in application procedures. Instead, this chapter provides an overview of typical locating procedures and the range of processing setbacks and costs a representative investor would be likely to encounter.

(a) Acquisition of Land

In Mauritius, the Constitution guarantees the right to private property. Mauritius has a well developed private real estate market. Foreign companies are allowed to purchase and develop land. Approval is granted at the time of project approval, from the Prime Minister's office. However, foreign individuals are not allowed to purchase land in Mauritius. The Prime Minister has the authority to grant special permission however, this is rarely done.

In Namibia, foreigners can acquire agricultural land only with the prior written consent of the Minister of Lands; the Ministry has now installed a moratorium on the purchase of agricultural land by foreigners until further notice. The Registrar of Deeds cannot register the transfer, lease, or sublease of agricultural land without a statement made under oath declaring, if the transferee, lessee, sub-lessee, or cessionary is not Namibian, the written approval of the Minister is necessary.

In the view of numerous private and public sector officials, approval for the purchase of agricultural land to foreigners will be extremely limited. These approvals are likely only if the new investor plans a high level of investment or innovative economic activities that are not already well-established in Namibia.

All land in Zambia is vested in the President and is held by him in perpetuity for and on behalf of the people of Zambia. This authority is exercised by the Commissioner of Lands on behalf of the President. The Lands Commissioner may make an offer for any land of size equal to 250 hectares or smaller; for areas larger than 250 hectares, a lease must be approved by the Minister of Lands. A non-Zambian can be alienated land by the President if any one or more of the following conditions apply:

- He or she is a permanent resident in the Republic of Zambia, as validated by having an entry permit or citizenship
- He or she is an investor within the meaning of the Investment Act or any other law relating to the promotion of investment in Zambia
- He or she has obtained the President's consent in writing
- He or she inherits land from its rightful owner, whether Zambian or foreign

A foreign company may have access to land in Zambia if the company:

- Is registered under the Companies Act as a company and less than 25 percent of the issued shares are owned by non-Zambians
- Is a cooperative society registered under the Co-operative Societies Act and less than 25 percent of the members are non-Zambians
- Is a statutory corporation created by an Act of Parliament
- Is a commercial bank registered under the Companies Act and the Banking and Financial Services Act
- Is granted a concession or right under the National Parks and Wildlife Act.

A person aggrieved with the decision of the President to refuse consent may, within 30 days of such refusal, appeal to the Lands Tribunal for redress. Land applications even in other countries is restricted and may be offered on the merit of the proposed project.

<u>Land Tenure/ Lease Terms</u>

Land may be on leasehold or customary tenure. There is no freehold system in certain countries such as Zambia, but not so across all countries. Leasehold tenures from the city or central government in COMESA countries run for 14, 33 and 99 years, renewable. Freehold land, mainly agricultural and rural land, has perpetual leases.

To obtain land, a prospective buyer should visit the town planner to determine what sites are available. A letter should be submitted to the municipality to purchase the land. Industrial zoned and serviced land is generally in short supply in Namibia. However the City of Windhoek and is gearing to replenish the supply over the next year and the Municipality of Walvis Bay is developing an industrial estate.

There are four primary mechanisms for land acquisition in Kenya:

- Purchase or lease of commercial land in the private market
- Leasehold land from the municipality or Government (leases range from 33 to 99 years). Most urban areas consist of leasehold land with pockets of freehold land
- Freehold land, primarily agricultural land
- Trust land, land title held in trust by county councils and also traditional land held in trust by the government on behalf of families

The private real estate market in Kenya is fairly advanced. Most cities and towns in Kenya have areas that are zoned for industrial estates; these areas offer speculative, ready-to-occupy buildings. Privately-owned standard factory buildings are typically leased for 2 to 5 years or 8 years, with quarterly or annual rents payable in advance. The growing scarcity of industrial areas in Nairobi in recent years has resulted in a significant rate increase.

For land outside Nairobi, which is generally less expensive, investors must begin the land acquisition process with municipal and county officials. For urban land outside Nairobi, investors should begin the process by contacting the land control boards or the Commissioner of Lands; for trust land, investors should contact district land officers and district development committees. All available land is advertised in daily newspapers and other registered organs.

Commercial real estate is well developed in Namibia's primary cities and there are several long-established estate agents. The availability of industrial zoned and serviced land in Namibia varies by location. In both Windhoek and Walvis Bay, the supply of these properties is limited and as a result, some investors have chosen to establish operations in Okahandja. Mauritius, too, has a relatively well developed system for new investors.

However, the situation is different in most other countries in the sub-region.

(b) Procedures for Acquiring Land

There are three ways to purchase land from the Windhoek municipality. The first is through tendering; approximately twice a year, the Windhoek municipality makes land available for purchase. Second, land that is not sold remains available for purchase at a later date and is known as "off-the-shelf" land. Third, if there is no suitable off-the-shelf property, one can request a "customized" piece of land; the customized land is subject to a longer process however, because the zoning and price have to be approved by the Ministry of Local Government. Unlike Windhoek, Walvis Bay does not have land that is available off-the-shelf.

In general, land in Namibia can be segmented into five categories.

- private urban land;

- private agricultural land;
- proclaimed public land available for private purchase;
- urban land in former communal areas;
- rural land in former communal areas.

(c) **Transfer Process**

The procedures for transfer of land do not take a considerable amount of time, but some investors suggest that it is necessary to engage a lawyer to handle these transactions quickly. The deeds transfer process is the same whether the land is purchased from private or public sources. In some areas, no land in Zambia other than what has been applied for has been surveyed, beaconed, and assigned plot numbers.

Transfer Procedures

In order to transfer a lease, the following general procedures and requirements must be followed:

Current leaseholder has to apply to the Commissioner of Lands for status consent by filling out and submitting an application form. In some cases the same form is used for obtaining consent to assign, sublease, mortgage, charge part with possession, sell, transfer, or subdivide any non-agricultural land.

a. The Investor pays an application fee

b. When consent is granted, the investor then pays transfer taxes.

c. The investor pays the necessary fees at the Lands and Deeds Registrar.

d. If the transfer is to:

  - An individual, the individual's identity (and related details) registration card number is necessary
  - A foreigner, his entry permit number is required
  - A business, the certificate of incorporation and investment license are required. If the applicant has no investment certificate, he or she must submit a list of shareholders, at least two of whom should be Zambians; otherwise the company must be 76 percent Zambian owned to acquire land through transfer.

The use of registration attorneys or conveyancers is sometimes mandatory and they are responsible for registering bonds (mortgages), conducting a Deeds Office search, registering documents with the Deeds Office, and obtaining the Municipal Clearance Certificate.

Investors are faced with four categories of land to choose among when securing land for development in Zambia – private land, customary land, state land, and parastatal landholdings are all potentially available for development. If the investor is purchasing a piece of land that is owned by an individual, the investor must apply for a transfer of ownership of lease. If the investor is interested in a piece of land held under customary tenure, he must convert it to leasehold tenure through a lease granted by the President.

The procedure for acquiring state land is the same as the procedure for acquiring customary land except there are no chiefs from whom to obtain consent, and the process starts directly with the relevant authority.

Typically, the duration between submission of the offer letter to the Lands and Deeds Registrar and obtaining the land title ranges from one to two months, but it can be much longer if there is need for surveying. There is no established time frame for the Surveyor-General to sign off on the diagrams, and it may take from six to nine months if done by the Surveyor-General. Surveying is reported to take three to four weeks if by private surveyors. The minimum amount of time to acquire land is reported to be six to seven months, and up to two years if an investor does not regularly follow-up with various officials.

Any dispute relating to land under the Lands Act may be taken to the Lands Tribunal, which consists of members appointed by the Minister of Lands and includes a chairman (qualified to be a judge of the High Court), a deputy chairman (qualified to be a judge of the High Court), an advocate from the Attorney-General's Chambers, a registered town planner, a registered land surveyor, a registered valuation surveyor, and not more than three persons from the public and private sectors. Any person aggrieved with a direction or decision of the President, the Minister of Lands, or the Registrar of Lands may apply to the Lands Tribunal.

The average rezoning decision can take two to four months to finalize.

(d) Issues

The land acquisition process in several sub Saharan countries is routinely described by investors as one of the most difficult aspects of setting up shop. Indeed, it is becoming especially problematic in view of the growing scarcity of privately held land. There is a reported significant lack of transparency in the process.

Many private investors and real estate agents have noted that the absence of formal guidelines, coupled with the multiplicity of laws, creates numerous rent-seeking opportunities for Lands officials. The process is also highly politicized. For example, numerous real estate agents and valuers have reported that prime land in Kenya is often allocated to politically well-connected individuals who have no intention or capacity to develop land (Kenyan law stipulates that land must be developed within one year). If they do develop the land, they typically will make minor developments on the land to satisfy the requirements of the Certificate of Occupancy. Most of these individuals make significant amounts of money by reselling land at market rates to foreign investors.

In Zambia Land speculation is a growing problem. Some investors report that local authorities were either purchasing choice land for themselves or misleading potential investors by telling them that certain plots of desirable land were already allocated. Local councils can themselves re-lease land that it leases from the national government. The complexity, lack of transparency in the system, and the lack of coordination among chiefs, local councils, the Ministry of Lands, and the NPWS create inefficiency and opportunities for corruption.

Negotiating a price directly and informally with village elders or customary owners may accelerate the process. However, this option may become even less appealing to investors as potential misunderstandings or disputes increase. Reports of delays in obtaining land from the Government varied widely and ranged anywhere from one month to several years. Some Kenyan businesspeople for instance report delays of more than five years in obtaining titles, in spite of several trips made to the Ministry of Lands.

There is a very loose link between the local authorities and the Ministry of Lands. Typically, the Ministry of Lands encourages investors to contact local chiefs and councils before coming to them, but some investors report that successful transactions must begin with the Ministry of Lands. Investors note that acquiring state land is generally a much shorter process than acquiring customary land.

This general lack of coordination between the chiefs and the local authorities. Currently, chiefs nominally control about 92 percent of the land in Zambia. The local authorities do not provide the chiefs with information about planning for the region, so in some cases, chiefs grant to an investor land that is already allocated for another use.

Surveying land can be unusually time-consuming. There is no time frame set by law for the Surveyor's in the Ministry of Lands, and serious delays are caused by these entities. Furthermore, the Ministry of Lands admits that countries currently suffer from a shortage of licensed land surveyors and modern equipment

There is very little information available on public land holdings and planned usage. In some areas, no land other than what has been applied for and urban land has been surveyed. This lack of information about what is available in the country makes it difficult to obtain land in the rural areas. The involvement of local authorities is a key problem in the process of acquiring land. In general, local councils seem unwieldy, with too many overlapping yet weak committees and departments, more elected members than required to manage institutions of their size effectively, and slow response rates.

Officially, infrastructure services such as water and sewerage are the responsibility of local authorities. In practice, however, many local councils are unable or unwilling to provide such services. The Commission of Lands does not seem to be aware of which pieces of land are serviced and assumes that most land is supplied with access to infrastructure services. Thus, investors may receive inaccurate information about their land from the Commission of Lands and must invest more than planned to purchase functioning hook-ups to water, electricity, sewerage and telecommunications.

Delays in obtaining land from the government are excessive and reflect the fact that land in countries historically has had no or very little market value particularly the former socialist economies.

f. Site Development

The procedures for developing a site are generally consistent throughout a country, but the specific steps an investor must take are defined by the individual local authority or regional planning office. In most cases, the approval of plans and the provision of water and sewerage are handled exclusively by the local authority.

To obtain approval for a subdivisional survey, the land surveyor must have a plan showing the proposed subdivision approved by the local authority's planning department or the Commissioner of Lands (if the land is leased)

g. Building Permits

Prior to beginning construction on their premises, investors must obtain approval for their building plans from the City Planning department in the City Council.

The application form must include information on the type of building being constructed and whether it conforms with City Council requirements, and the construction materials being used and their conformance with approved standards and specifications. Within the City Council, building plans must receive "no objections" from the following divisions before they can be approved: city engineer, chief fire officer, water and sewerage department, public health department, and inspectorate of factories. The town planning committee, which consists of various officials, meets regularly to review building plans and to issue final approvals.

When the developer starts to build, city planning monitors construction at various stages. Once the construction is completed and it meets the approval of the Nairobi City Council, the developer is issued an Occupation Certificate. In general, developers must complete their construction within 18 to 36 months. Since the Town Planning Committees usually meets only once a month (in some cases once a quarter), it may take an additional month for building plans to be approved if the committee does not review building plans during a particular month.

Building permits are issued by the local authority with jurisdiction over the particular site. Each authority has its own application process. Most applications must meet both the bylaws of the authority and the national codes set out in the Town and Country Development Act. The local public health department, local fire department, and local planning department are also consulted.

To construct any facility on a piece of undeveloped land, the investor is required to obtain a building permit. Once the building plans are approved, the local authority conducts a minimum of six inspections of the building site to ensure that the builder follows the plans. Other inspections may be carried out from time to time, depending upon the specifics of the building.

Issues

1. The investor must pay all scrutiny fees

2. The building plans are reviewed by the fire, water, sewerage, public health, and planning departments for compliance. However, the investor may be asked to provide transport at his or her own cost if the inspections are to be carried out quickly.

3. Full council convenes and reviews the application. If the full council approves the application, the applicant is issued a Notification for Approval.

It takes about 90 days from the application day to receive the result. If the application is refused, by law an applicant has to wait for several months before his or her project can be submitted for re-evaluation. In Zambia, this delay is 6 months.

Township Developments**.** If an investor in Nambia would like to develop a large area the process becomes much more complex. Two boards have been set up by the Government to advise on the need and desirability of establishing townships, subdividing farmland into portions smaller than 20 hectares, or any property where more than ten new plots are being created. The entire process regularly takes as long as 24 months according to Municipal officials even if no problems arise; some private property developers however, said that it can be done in 6 to 12 months. This process is likely to change as the Land Use and Environment Board is expected to become operational.

h. **Water Supply**

Water Connection. In order to obtain a water connection, investors must submit an Application for Water Supply to the Council. Applicants must also enclose a deposit, which varies depending on the type of connection required. The City Council states that it takes one to two weeks to obtain a water connection. Water bills must be paid on a monthly basis.

Applicants should provide information regarding the volume of water required per day as well as the nature and composition, method of disposal and volume of trade effluents. A ground water license for investor desiring to exploit underground water supply may be obtained upon approval of the application.

Sewerage Connection. In order to obtain a sewerage connection, investors must submit an application to the Sewerage Department in the City Council. Once the application has been submitted, Council staff visit the site to assess the materials required. The municipality stocks all necessary materials. There is a minimum fee of Ksh 2,500 for any connection; fees vary based on the type of connection required. There are also additional monthly charges.

(I) **Electricity Supply**

Investors interviewed during the Roadmap studies said that it typically took one to two months to complete the process of applying for and receiving a power connection. Using the case of Mauritius, the Central Electricity Board (CEB) will deliver a permit and install power only after authorization to operate a factory in the locality has been obtained from the Municipality or district Council concerned.

In some cases the investor may be expected to participate financially in the capital investment required for extending the power supply to his/her factory or to modify the network depending on the location of the building or to meet additional load requirements. This payment is considered as a loan and will be refunded without interest to the investor in five equal yearly installments. The first reimbursement would be due one year after the date of payment of the loan.

When connecting a new line in Zambia, half the capital cost is paid for by the investor and the remaining 50 percent is paid by Zambia Electricity Supply Corporation (ZESCO).

j. Occupancy Permit

During the construction of the building, the building inspectorate under the department of city planning carries on inspections at each of the six stages defined as:

i. Trenches
ii. Foundations
iii. Damp and ant courses
iv. Drainage
v. Completion up to wall plate level
vi. Completion and final inspection for Issuance of an occupancy certificate

The number of stages vary in each country but ranges from 5 in Namibia to 7 in Tanzania and 9 in Swaziland. The developer must inform building inspectors when the structure has reached any one of these six stages that the area is ready for inspection. In addition to the inspection fee charged, an investor maybe required to provide transport to the inspectors in order to expedite the process.

After the fire department of the Directorate of Engineering Services and the Department of Public Health complete their inspections, the occupation certificate is issued by the Director of Engineering Services. It reportedly takes about 2 – 4 weeks to obtain the occupancy permit.

k. Infrastructure Issues

Electricity Hook-up

Approximately two thirds of the facilities consuming water are not metered due to the problem of financing meter purchase and installment. For that reason, LWSC takes an average of the regional consumption and charges its customers on that basis. In 1988 it was estimated that only 40 percent of what should be collected is collected in Lusaka. LWSC is also responsible for collection and transport of sewerage to waste treatment facilities. While approximately 80 percent of Lusaka City is serviced by water, only 33 percent of the city is serviced by sewer facilities; the rest is utilizing septic tanks, soakaways, pits, pit latrines, or nothing at all.

The procedure to obtain a new water connection is as follows:

- Within two days, LWSC engineers perform a field inspection to determine whether or not the requested service can be supplied. According to LWSC officials, rendering this decision takes approximately five days. Also, the charge for the connection is estimated within three to five days.

According to some in the private sector, in actuality most residents of Lusaka do not rely on public sewerage services and instead use their own septic tanks.

<u>Telephone Hook-Up.</u> Almost all towns in the region have phone service. There are also digital satellite links to Europe and the United States. Mobile phone services are available through the following:

- Zambia – Telecel, Celtel and Zamtel
- Mauritius – Mauritius Telecom
- Tanzania – Mobitel
- Malawi - Celtel

In Zambia, Internet access is also available through respective service providers.

The Multi Access Radiotelephone System services primarily the farming community in remote areas. Using a tower is the main base station from which signals are transmitted and received to and from centres. Interviewed investors during the Roadmaps report that connecting a new phone line takes from one to eighteen months, with Namibia and Mauritius taking less time.

Application should be made to the Mauritius Telecom. Mauritius Telecom operates several digital services, including ISDN lines, cellular telephone systems, internet and email services. At the time of the National Roadmap Study, Mauritius Telecom was the sole provider of telecom services in Mauritius. Telephone, telex and telefax services are available from the Mauritius Telecom. Other communication devices available locally are cellular mobile phones, with an island wide coverage available on the 900 MHz TACS system.

Telephone call charges are based on time and distance in the form of metered units. The system allows more time per unit for local calls and progressively less time per unit for trunk calls, according to the distance covered. In most countries, during off-peak hours, local and national calls are 50 percent off the standard rate, and international calls are 75 percent off the standard rate. The call rate per minute for 7 COMESA countries is given in Table VI (extract from the RIFF meeting)

<u>Postal Services.</u> Postal companies offer services of different categories. The first category of services including:

Letter post Includes delivery of postal matters, including letters, postcards, newspapers and magazines, small packets, literature for the blind, and parcels.

Upon receiving the reference number, the post office searches for an available box number. Demand for boxes far exceeds the supply. The records office does often contact applicants to inform them of the availability of boxes; thus, applicants must check with the records office regularly to determine if a box has become available. Postal box providers, such as Kenya's KPTC say they offer special priority services for essential services providers (such as hospitals and relief organizations); however, applicants must then attach a letter to their application stating the nature of their work and the reasons why they should receive priority. Postal box holders must renew their applications annually.

(l) **Issues**

The primary hindrance to development of land are the various inspections and approvals needed for the Development and Building permit. (In the case of the Mauritian Ministry of Health and the Ministry of Environment authorities, the Ministers themselves must sign-off on the approval). There is little coordination between the relevant agencies during the approval process. Additionally, there a examples of cross dependency of approval processes. It was also sighted, that the site inspections cause undue delays. Delays for obtaining permits for utilities, when building a facility, can run as high as six months.

Despite recent improvements, the existing site development process is still flawed, as evidenced by the multiplicity of steps and approvals required. The three-month delay in granting building permits compares unfavorably to regional standards, including in Namibia, where permits are routinely granted in two to three weeks. An interviewee during the Zambia study reported that he obtained his building permit two years after the building was complete, and it took him five years to obtain the occupancy permit.

The need to obtain both a "permission to develop" and a "building permit" is confusing for investors and perceived to be duplicative.

Investors, who would be willing to spend considerable time and money to comply with a country's land development regulations, are frustrated by illegal squatters who have invaded prime land slated for industrial, commercial, and or agricultural use. Given the legal and political problems with evicting illegal occupants, investors noted that it would be extremely foolish to purchase land occupied by squatters.

Investors feel that local councils are generally overstaffed, under-funded, and lack enough qualified personnel. One consequence of the lack of funding, overstaffing, and inefficiency is that investors are compelled to pay for the transportation of building inspectors when they inspect a site.

Often local authorities expect developers to build the necessary infrastructure to access public services, and at the same time developers expect access to come from the utility companies and local councils. Only general incentives apply to private-sector companies involved in infrastructure services, and there are no special incentives to attract private investors. Also, serviced, zoned industrial land is in particularly short supply and continues to be a constraint in countries such as Malawi and Zambia.

The process of inspecting construction is time consuming and can be expensive for investors. Currently, local council inspectors are to be notified when a project reaches several different phases of completion (5 in Namibia, 6 in Zambia, 7 in Kenya and 9 in Tanzania) so that the investor can arrange for their site to be inspected. Each time, the investor is liable for the costs associated with the inspection. In Zambia interviews with utility providers indicate that vandalism and illegal connections are among the biggest problems they face.

The multi-week delay in getting power commonly experienced by new companies is a function of the location of the company and the closeness of the site to an existing power line. ZESCO's hook-up time's (in Zambia) compare poorly to the two-week delays in Namibia, for example, and add to the cost of doing business in Zambia. In addition, the requirement that investors pay 50 percent of the installation costs up front (in Swaziland, the full cost is paid in advance or 40% in exceptional cases) imposes a significant working capital cost on firms when they can least afford it. In Namibia, however, there is generally no power installation fee although a consumer must pay a deposit and is responsible for paying a private electrician to make a connection.

The business community suggests that problems with reliability of the power supply have decreased significantly in recent years, and ZESCO's response times for failures have improved considerably. Tanzania's TANESCO however still requires great improvement as reports of power failures and power shedding or rationing are common. These power reliability is less common problem with CEB in Mauritius, SWAWEK in Namibia and Swaziland Electricity Board (SEB)

The introduction of cellular phone service represents a quantum improvement in region's phone service. It has improved communication reliability and given consumers an alternative to the state-run systems and its long installation delays. Nevertheless, there are still several problems facing telecommunications industry. At US$300-$500 per unit, the cost of cellular phones remains outside the reach of most small businesses. This means that businesses continue to face long delays in obtaining regular phone service from the parastatal service providers. The current delays in service installation are excessive by any standard in Zambia and compare unfavorably to the 15-day wait in Namibia. Delays in other countries are as long as one year.

The following statistics provide additional evidence of the problems in Kenya's telecommunications sector:[5]

- In Kenya, there is currently a backlog of 80,000 telephone applicants 13,000 in Swaziland (1997 figures). The KPTC has the capacity to manage only 10,000 phone lines per year. At this rate, it can take up to eight years to obtain a telephone connection

[5] *Sunday Daily Nation*, July 5, 1998, p. 8.

in Kenya and 6 –12 months for installation of business business lines (with 3 – 5 years for the installation of residential lines)

- Kenya's telecommunications technology is highly outdated, and it is difficult to find spare parts. In 1998, only 54 percent of Kenya's telephone system is digital. This compares to 70 percent for Uganda and 72 percent for Tanzania.

- There is little no foreign investment in Kenya's telephone system which as at 1997 compared to 24 percent private investment in Tanzania and 75 percent in Uganda.

Investors involved in manufacturing activities mentioned the need for rapid start-up. The installations of power, telephone, water, and other services are perceived as by the investors, burdensome procedures that take too long. Nonexistence of ready-built factory space limits the attractiveness of most countries as an investment destination. Some investors report that due to the poor quality of infrastructure systems and services, it is difficult to comply with local environmental laws, some of which are up to western standards.

Town planning regulations in several African countries date from the colonial era; long-term town planning has not occurred in major municipalities throughout particularly those such as Nairobi or Lusaka whose population has grown significantly in recent years.

It can take up to six months for building plans to be processed by the City Council. Delays can be considerably longer for larger, highly complex projects. In the 2 towns illustrated above, City Council staff members have a manual processing system that is highly disorganized. During several visits to the City Planning Departments, the Roadmap consultants encountered hundreds of dusty, tattered files gathered in large stacks throughout the offices. This disorganization and absence of formalized guidelines create a highly nontransparent environment in the City Councils. When developers change their building plans midstream, an official amendment to records is required. This can be a time-consuming process; it requires the Town Planning Committee to meet again.

There have been ongoing problems with power rationing in Kenya particularly in the second half of the 1990s. Because machines remain idle, productivity falls and businesses incur significant losses. For example, the Kenya Association of Manufacturers reported that during the power rationing schedules of 1996 and 1997, manufacturers experienced a 20 percent to 30 percent drop in their revenues.[6]

(n) Environmental Compliance

All new projects in countries such as Tanzania and Zambia, including renovations and expansions of existing facilities, require a project brief stating the nature of the project and assessing its potential environmental impact, whether positive or negative. These project briefs are generally conducted by local or international consultants; the Environmental authorities/Council has a list of consultants that it can recommend to investors. Briefs are

[6] The East African, July 20-27, 1998

typically reviewed and decided upon within two to four weeks and may sometimes seek changes in a project design.

The Environmental authorities/Councils in each country addresses various types of pollution with a series of licenses and fees that are graduated to cost heavier polluters more. Acquiring these licenses requires several steps:

- Paying a fee, the amount of which varies by country based on the type of license or project being sought
- Receiving a receipt
- Waiting for staff to conduct a technical and legal review of the application and project (may or may not involve a site inspection)
- Gazetting the proposed license (where required) at least 28 days prior to the date the license is to be issued
- Considering any objections, after which the authorities council generally issues a license within three months

(n) Environmental Compliance

In cases where an environmental impact assessment is required in Mauritius the following procedure must be undertaken by the investor:

- Preparation of a project report by a qualified technician with expertise on environmental issues;
- Submission of report to the Ministry of Environment;
- Report is open to the public at the EIA desk. Any query or objection may be addressed to the Ministry of Environment within 28 days and simultaneously an EIA notice is published in two daily newspapers;
- Committee meets, with representation of different relevant authorities;
- If there is no dissenting views, an EIA license is issued with several conditions to be respected.

The whole procedure takes at least 3 months.

Kenya has no comprehensive environmental legislation. Existing environmental laws are delineated in local authority bylaws on building and town planning, and occupational health and safety laws. Many environmental provisions are outdated and penalties are virtually unenforced. One significant proposal under this action plan at the time of Roadmap was the creation of a single institution with overarching authority to coordinate environmental policy. The United Nations Environmental Program (UNEP) was also assisting the Government in the development of a comprehensive legislative framework for environmental issues. As a second step in this process, UNEP would review sector-specific environmental legislation to ensure that it conforms with the comprehensive framework.

(o) **Issues**

In most cases, investors should file their applications six months prior to commencing operations. The council's Environmental authorities or licenses are valid for a period ranging from 6 to 36 months, depending on the severity of the pollution involved and the variability of the enterprise's emissions.

Many investors find complying with some of the environmental laws, which are occasionally as strict as those in developed countries, almost impossible. Shortages in skilled labor; a lack of quality waste, water, and power infrastructure services; limited modern technology; poor transportation infrastructure; and a dearth of loanable funds for technological and capital improvements raise the cost of doing business and also lower efficiency. Given these disadvantages, some companies find it difficult to operate within the confines of existing environmental regulations in countries such as Zambia.

Furthermore, The Environmental Council and local councils both license effluent waste discharge, apply different standards, use different inspection methods, and do not respect each other's authority.

2.3 Reporting to Government

This section covers all the business application and reporting procedures required of the typical business a COMESA country including business registration, specialized licensing, and all required tax registration and reporting requirements.

(a) **Business Registration**

There are basically four types of companies that are recognized in in most countries:

- Public companies limited by share capital
- Private companies limited by share capital (with a specified maximum number of shareholders)
- Companies limited by guarantee (with a specified maximum number of 50 employees)
- Companies with unlimited liability

(b) **Process**

(c) **Registration and Incorporation of Companies**

In discussing the issues related to registration and incorporation of companies, the Zambian case has been given as an illustration. A few criteria determine the type of company an investor may form in Zambia. A private company must have a minimum of K500,000 (US$130) in share capital to incorporate in Zambia; a public company must have K1 million (US$280) in share capital. A company incorporated in Zambia must consist of two or more people and, although there are no nationality requirements relating to who can own a Zambian firm, more than 50 percent of the directors, including a managing or executive director, should be Zambian citizens or established residents with valid entry permits.

After getting a valid Visitor's Visa, there are three steps to register a company in Zambia, which are similar in other countries as well. These are:

i. Initiate a names clearance. This is done by bringing in a written request to clear a company name in Zambia and paying a processing fee. According to Registry officials, this process, which involves a database search, usually takes one to two days.

ii. Incorporation under Zambia law. Incorporation application forms can be purchased at the Registrar's office for a small fee of under US $5.000

iii. Pay 2.5 percent of the nominal capital (plus a minimal fee for processing the application). The application forms ask an investor to supply information about the key owners and managers of the firm; an applicant is no longer required to submit a memorandum of association. According to Registry officials, this process takes one to two days, at the end of which an investor is issued a certificate of incorporation and a certificate of commencement of business.[7]

These certificates do not need to be renewed, but each year companies must file an annual return that includes such information as the company's location, nominal capital, changes in shareholders, and level of indebtedness. Branches and foreign companies and foreign companies that purchase Zambian companies are required to register with the Registrar within 28 days of operation or purchase, respectively.

In Nambia, the process are similar but vary slightly. The Memorandum of Association is still required as in most countries in the region, the requirements and procedures are also listed below:

Forms of Business Entities

Establishing a Corporation

A foreign company is defined as a company incorporated outside Mauritius that has established a place of business within Mauritius. Foreign companies can set up a branch in Mauritius to carry on business.

Within a month of establishing a branch, the foreign company must file with the Registrar Companies the following:

- Authenticated copy of certificate of incorporation

[7] Some businesses report that they were not issued the certificate of commencement of business, but have had no problems operating their enterprise.

- Authenticated copy of memorandum of association and articles of constitution
- List of directors with particulars
- Memorandum stating the powers of local directors
- Particulars of registered office in Mauritius
- Declaration made by the authorized agents of the company
- Names of two or more persons resident in Mauritius and authorized to accept on behalf of company service of process and notices, submitted with a memorandum of appointment.
- A balance sheet, profit and loss, and company assets and liabilities have to be submitted within 3 months of its annual general meeting.

Company Registration

No companies including a foreign company can be registered under a name that is identical with to any existing company or resembles a name that is likely to mislead. An international company is incorporated between 2 days and one week. It normally takes approximately 10 to 15 days to establish an offshore company.

Foreign Companies

Foreign companies are required to file the following documents with the Registrar for registration within one month after establishing a place of business or commencing business:

- An authenticated copy of the certificate of incorporation;
- An authenticated copy of the Memorandum and Articles of Association;
- A list of all directors with particulars for each;
- A memorandum stating the powers of the local director, if any;
- A sealed memorandum of appointment of power of attorney stating two or more individuals, resident in Mauritius, authorized to act on behalf of the company;
- Particulars of its registered office in Mauritius.

Registration of Private or Public/Limited Companies

To register, a private or public/limited company is required to use a lawyer. The first step is to fill out Form CM5 (with N$5 revenue stamp) to reserve a name. Subsequently, the applicant must provide the following information:

- Memorandum of Association (Form CM2 -- N$2.50 per N$1000 shares with a minimum of N$25);
- Articles of Association (Form CM44);
- Address of the registered office (Form CM22 -- N$2 revenue stamp) in duplicate;
- Signed consent of each person named as a director (Form CM27);

- Register of auditors, directors, and officers of the company (Form CM29 -- N$2 revenue stamp);
- Appointment of auditor (CM31 -- N$2 revenue stamp);
- Notice of person authorized to accept service on behalf of external company (Form CM37 -- N$2);
- A statement regarding adequacy of capital (Form CM47 -- N$2);
- Certificate of Registration of Memorandum of External Company (CM49 -- N$50).

All application forms are available in major bookstores or lawyers' offices. If satisfied, the Registrar will issue a Certificate of Incorporation (Form CM1) and a Certificate to Commence Business (CM46 -- N$10 revenue stamp) in about 4 days -- two days for the approval of the name and two days for the rest of the process. At the time that the CM46 is issued, the applicant must pay the annual duties of N$4 per N$10,000 issued share capital (minimum N$80). The cost of the (local) lawyer is likely to be approximately N$3,500 for the entire process.

Foreign Company

Any company incorporated outside Namibia that establishes a business in Namibia has to register within 21 days. Where the accounting records are kept outside Namibia, returns sufficient for the audit of the annual financial statements must be sent to Namibia.

Reporting Requirements

Companies, both public and external (but not private), are required to file annual audited financial statements. All registered firms in Namibia must pay an annual fee to the Receiver of Revenue.

Company Registration

Kenyan regulations allow for the establishment of public and private corporations, joint ventures and branches. Kenya's Companies Act of 1959 (modeled on 1948 British legislation and now subject to review by a task force appointed by the Attorney General), governs the establishment of companies in Kenya. Investors most commonly choose the limited liability company when establishing a presence in Kenya. To set up a limited liability company, it is necessary first to obtain approval for the company name from the Registrar of Companies. This involves a formal application, the payment of Ksh 50, and a delay of several days.

Under the Companies Act, a branch must register as a foreign company having a place of business in Kenya within 30 days of start-up. In practice, a certificate of compliance with these registration requirements is necessary to issue both trade licenses and entry permits for noncitizen employees.

The formation cost for a small private company is approximately Ksh 50,000, including stamp duties and legal fees. Stamp duty is charged at a rate of 1 percent of authorized share capital. The maximum registration fee is Ksh 4,500. If all of the information is in order, Registrar Officials state that a foreign company is issued a Registration Certificate in two or three days.

(e) Trademarks

Trademarks may be registered under the Trademarks Act of the respective country and may be renewed after the initial period. A publication of notice is however required in the press and government gazette prior to approval A trademark owner is advised to begin renewing his or her trademark six and a half months prior to the end of its validity (where it is required).

If a registered trademark remains unused for several years, any citizen can file a petition with the Registrar to withdraw the trademark. Trademark owners can authorize a licensee to utilize their trademarks.

(f) Patents

The Patents Acts cover the protection of patent rights (for sole and exclusive rights). Patents are valid for an initial period of 16 years in Zambia and renewable thereafter. In Mauritius, a patent is issued after one month if after one month of advertisements there is no objection.

Zambia allows for two ways to file for patents. The conventional way is to file for a patent in one's home country and seek recognition of it in Zambia when the patented product is ready to be sold or produced in Zambia. If a patent has been registered within an investor's home country, the investor can complete an application for the Zambian Registrar of Companies to recognize the patent in Zambia.

Analysis

(g) Issues

The company registration process is widely reported to be efficient and transparent. In Zambia, for instance, the Registrar of Companies was recently de-linked from the Ministry of Trade, Commerce, and Industry, and Registrar officials report that this change has improved overall responsiveness to customers.

In particular, some of the information required in the Registrar's annual filing related to a company's financial performance is duplicative of information collected by the Revenue Authority and the IPA.

The process includes dozens of forms used to cover the variants of company registration, changes in company status, and declarations of shareholders and company directors. Generally, the registration forms each ask the same questions and the differences among each type of form are slight.

Some in the private sector expressed concerns about the lack of protection of intellectual property rights. Both the existence of "knock-off" products sold streets)particularly in East African countries as well as Malawi, Zambia and Zimbabwe) and the weakness of the commercial court system are concerns to some in the private sector.

Registration

To register with Revenue Authority to pay corporate income tax, a company must first register with the Registrar of Companies. Companies must complete a tax registrant form and submit it to the local office, care of the Commissioner of Direct Taxes, along with a copy of the certificate of incorporation and a copy of the company's memorandum of association.

Income Tax. *There are several schemes for the assessment and collection of income taxes.*

Pay As You Earn

PAYE is a method of collecting taxes at the source of an individual's employment. The employer is responsible for deducting a certain amount of tax from his or her employee's salary or wages each payday, and then remitting the tax to the Tax Authorities. This method shifts the burden of responsibility to the employer.

Company tax

Company tax is a form of income tax levied on companies with limited liability. Business losses can generally be carried forward for five years in countries such as Zambia and indefinitely in other like Mauritius. A self-employed person pays tax at a rate of 30 percent.

Exceptions to these tax rates include income earned from farming by any person or company and fertilizer manufacturers, which incur a maximum of 15 percent tax. Mining enterprises pay a maximum corporate tax of 10 percent and can carry business losses forward for ten years.

Withholding tax.

Withholding tax (WHT) is deducted from the following sources of income:

- Rents
- Interest
- Dividends
- Royalties
- Management fees and payments made either to non-resident contractors engaged in construction and haulage, or resident consultants

Base tax

A base tax is a presumptive tax levied on small-scale businesses that cannot manage to maintain adequate business records on which to base a correct tax assessment at the end of the charge year. This is applicable in Zambia.

Mineral Royalty Tax

Mineral royalty tax is a levy on all holders of a large-scale mining license on the "net back value" at 2 percent. The net back value is the market value of minerals free on board at the point of export from a country or, in the case of consumption within the country, at the point of delivery within the country, less: the cost of transport, including insurance and handling charges, from the mining area to the point of export or delivery, and the cost of smelting and refinery and refining or other processing costs, except on the processing costs as related to processing normally carried out in the mining area.

Property Transfer Tax

There is no capital gains tax in some countries *per se*, but there is a capital transfer tax which is charged on the realizable value of property being transferred at a certain rate of the gross sale amount. The tax is payable by the transferor. Other countries such as Mauritius also have specific land 'transfer tax'

Value Added Tax

Registration

All companies operating in a country above a certain revenue threshold need to register with the Revenue Authority to pay VAT. VAT is a non-cascading tax that has replaced Sales Tax in a number of countries, as shown in the tabulation of taxes in the reference annexes.

VAT Rates and Assessment

In each filing period, companies are granted grace period to pay the actual amount of VAT owed, but if a trader does not pay the amount owed within this period, penalties and fines may be assessed.

VAT Tax Exemptions

To promote tourism, Zambia introduced a zero-rated tour package. A tour package is defined as "supplied by a tour operator or travel agent, licensed as such by the Zambia National Tourist Board, to a tourist who is not a resident of Zambia, subject to such conditions as the Commissioner General may by rule require."

Local and Other Taxes

Local councils are granted limited authority to tax and to charge fees under local legislation, including the ground rent and site development approval fees described earlier.

Several other government entities have the right to charge levies and fees. For example, companies engaged in the sale of fuel are assessed special levies, and some local authorities assess transportation charges for goods moving through their jurisdictions.

Analysis

Issues

Most businesspeople interviewed gave the autonomous revenue authorities (KRA, MRA, URA, ZRA formerly government departments) credit for increasing their overall effectiveness, improving rates of tax collection, and clarifying rules and procedures. In recent years the ZRA has improved its explanation of tax reporting requirements by establishing an “Advice Centre” and publishing several explanatory pamphlets.

Many companies noted that while the Revenue Authorities are strict about payments and paperwork being filed correctly and on time, the Departments of Direct Taxes and Customs and Excise are slow and unresponsive when it comes to processing refunds or explaining the status of a tax return. Ultimately, the new levies charged by local councils may or may not be paid, but the tendency to create arbitrary taxes creates uncertainty among investors and undermines the credibility of local officials.

Specialized Licenses

Agricultural Licenses

To export livestock, the authorities inspect animals and issues a permit. If livestock is being exported to neighboring countries, a provincial veterinary officer quarantines the animals for a number of days at the border before releasing them and certifying them disease free.

Plant exports are inspected and a phytosanitary certificate is issued for each consignment. For food products, a license is required to be issued for imports and exports. This is a necessity under the Sanitary and Phyto-sanitary (SPS) regulations.

Fertilizer is classified as a chemical, and thus Zambian regulations state that all importers and manufacturers must register with the Environmental Council of Zambia under Statutory Instrument No. 20 of 1994, pursuant to regulations governing the environmental protection of pollution control.

Mining Licenses

Three main types of licenses exist –prospecting permits, mining permits, and mining licenses. Fees are set according to the type of mining activity regulated, size of the operation, and amount of land involved. Officially, obtaining these licenses up to 60 days from the time a completed application is received, otherwise the applicant is given the right to prospect or mine automatically.

Typically, a response is forthcoming within three to four weeks. The Ministry of Mines coordinates with the Environment Authorities to ensure that mining companies do the following when finished with their operations:

- Replace lost soil
- Make the land capable of supporting agriculture, forestry, or similar uses
- Take steps to protect the environment when work is temporarily suspended
- Take steps to improve a quarry site once operations have ceased in the quarry

Banking Licenses

Licences for banking usually require police clearance and Central Bank approval upon meeting minimum capital requirement (net of pre-operating expenses).

Aircraft Licenses

Companies that operate charter flights and air tours are required to obtain a variety of licenses from the Department of Civil Aviation in the Ministry of Transportation. The inspectors will also assess the maintenance arrangements for the aircraft and ascertain absolute ownership of the aircraft.

Energy Sector Licenses

Licenses are required for electricity generation and distribution as well as oil marketing and distribution firms. Relevant authorities, such as the Energy Regulation (ERB) in Zambia, conduct inspections of facilities at any reasonable time.

Local Council Licenses

Under the Trades Licensing regulations, city, town, and district councils regulate and license a variety of corporate activities in a country. Most of these licenses are designed to regulate small-scale enterprises, but some apply to larger businesses as well. In most cases, a company must renew its local council licenses annually. The renewal process usually requires that a business pay the costs for inspectors to come and investigate the operations of the business plus any required renewal fees.

Analysis

The following issues are discussed with relevance to other specialized licencing areas such as tourism, in light of the similarity of concerns.

Issues

There is a legitimate need for national and local officials to protect the public interest through such mechanisms as granting permits and inspecting businesses, but several areas of jurisdictional overlap and little coordination is evident among government agencies in the arena of licensing in a number of countries. For example, the Environmental Council and local councils both license effluent waste discharge, apply different standards, use different inspection methods, and do not respect each other's authority. In Zambia, the Ministry of Commerce, Trade, and Industry and local councils both issue licenses for manufacturers, and it is unclear why both need to license the same activity.

Many agencies require investors to submit information that does not relate to the activity being regulated, thereby increasing the amount of paperwork requested of the private sector and the amount of time and effort required of regulators to grant an approval. For example, several different agencies, including the IPAs, Immigration Department and Registrar of companies require a company to submit its business plan, and company executives are not certain what criteria are being applied by each in its review

Throughout the COMESA region, inspections are unusually cumbersome and expensive for the private sector. Many businesspeople told stories of having to provide roundtrip transportation for inspectors, pay them a daily fee during the inspection period, and cover hotel and per diem costs for entrepreneurs based outside the capital city.

The local-level regime for inspecting and regulating private commerce is particularly fraught with problems. While local officials are tasked to carry out certain regulatory functions, in many instances the business community says that they lack the resources or expertise to do so. The private sector's aggravation at the time and financial burden of inspections is compounded by the fact that many agencies inspect businesses. Furthermore, few inspectors are considered effective or skilled enough to perform a meaningful regulatory role. Representatives of the private sector say that many of the inspectors that visit them are unfamiliar with the item, process, or technology that they are mandated to inspect.

Acquiring Incentives

With recent revisions to Zambia's 1993 Investment Act, there are few specific incentives for which investors need apply. The agriculture, mining, and small business sectors have the most attractive investment incentives. While the procedures for acquiring these incentives vary, in general one must first register as a corporate and taxpaying entity in a country.

To apply for incentives, a company must contact several different ministries and government agencies, although the IPA can assist investors. The procedures for applying to the various line ministries for incentives vary, but essentially an investor must fill in an application form to obtain a sectoral license. In some cases the investor must contact the Revenue Authorities or Trade Ministry and other agencies directly and furnish copies of its sectoral license to access incentives.

General Incentives

In looking at the incentives offered by a number of COMESA countries extracts from the Roadmaps have been highlighted below with examples from 5 different countries.

Zambia

An individual who invests US$250,000 or more and employs ten people is entitled to receive a Self-employment Permit or Resident Permit for himself or herself, and up to five work permits for expatriates. Raw materials imports, including chemicals, rubber, steel, and plastics, can be imported duty free. Companies that are listed on the Lusaka Stock Exchange are taxed at 30 percent, thereby receiving a 5 percent reduction in corporate tax. Machinery in used in farming, manufacturing, and tourism is entitled to a 50 percent wear-and-tear allowance for the first two years of operation.

Agricultural and Rural Incentives

Businesses that operate in areas officially designated as rural receive a tax reduction of one-seventh of their total tax burden. Other incentives include:

- Dividends from farming are tax exempt for the first five years of a farm's operations.
- Capital equipment for farming is duty exempt during importation.
- 100 percent of capital expenditure on farm improvements are entitled to tax deduction.
- 100 percent of the expenses required to clearing or improving farm are deductible.
- Capital expenditures on growing coffee, tea, bananas, citrus fruits, or "similar plants qualify for a 10 percent development allowance in the first year of production.
- Farming and non-traditional (i.e., non-mining oriented) export enterprises are entitled to a corporate tax rate of 15 percent.

Mining Incentives

Under the Mines and Minerals Act of 1995, the importation of mining equipment, plant, and machinery is exempt from customs duties.

Tourism Incentives

Buildings designated as hotels receive a 5 percent annual wear-and-tear allowance. This allowance is 10 percent in the first year of operation.

The Investment Centre reports that they consider an average of 12 to 15 investments per months, and three percent of all applications are rejected.

If an investment is approved, the ZIC charges US$1,000 to issue its Investment Certificate. Within six months, an Investment Officer will contact the investor to assess his or her progress. After one year, the ZIC will review the project to ascertain if it is functional and conforms to the proposal as approved.

Uganda

Investment Incentives. Incentives can only be applied for after investment has been implemented. To qualify for a Certificate of Incentives, a Ugandan project must have fixed assets of at least US$ 50,000; for foreign investors, the corresponding amount is US$ 300,000. To obtain the Certificate an investor should write a letter to the UIA requesting the incentives. The investor needs to demonstrate that the minimum fixed asset level has been achieved. The applicant should also note how the project will assist in: generating or saving foreign exchange; utilizing local materials, supplies and services; creation of employment; introducing new technology; or contributing to local or regional socio-economic development. Relevant documentary evidence should include:

- import documents for imported machinery and equipment such as customs entry forms, SGS clean report of findings, and commercial invoices;
- valuation of building as shown by copies/receipts of work done or recent valuation reports;
- audited accounts for that fiscal year;
- date of commencement of operations;
- employment created;
- value of investment made in various qualifying assets.

Qualifying assets include:

- land and buildings;
- plant and equipment;
- office and laboratory equipment;
- data processing and communications equipment;
- transport vehicles and storage facilities.

The overall guideline is that qualifying assets need to be "essential and integral to the production process." For financial institutions, working capital can also qualify.

At this point, a UIA official will inspect the site and examine import documents to ensure that the minimum investment level has been met and the officer will summarize the findings in an appraisal report submitted to the Division Head. Eventually, a decision will be made by the UIA's Board of Directors on whether the UIA should recommend to the Ministry of Finance that the firm receive incentives. Before this recommendation is made to the Ministry of Finance, it must first be approved by the UIA's Executive Committee (senior management committee of the UIA which typically meets once or twice a month), the Investment Promotion and Facilitation Committee of the Board of Directors, and finally the full Board of Directors.

Each step generally takes approximately one week and consequently there is typically a one month delay for the Board to reach its decision. There is at the present time no processing fee for the Certificate of Incentives. After issuing the Certificate of Incentives, a copy is forwarded with a letter to the Commissioner General of the URA.

Mauritius

Manufacturing Incentives

Export Enterprise (EPZ)

Export-led growth remains the overriding policy priority within Mauritius. The Export Enterprise Certificate is meant for export-oriented enterprises which export their entire output. Authorization to sell a small portion (10-20 percent) of the output on the local market can be obtained.

Qualifying activities:

- all manufactured goods for exports
- produce of deep sea fishing (including fresh or frozen fish)
- printing and publishing as well as associated operations
- IT activities
- Agro industries

Incentives:

- No customs duty, or sales tax on raw materials and equipment
- No corporate tax
- No tax on dividends
- No capital gains tax
- Free repatriation of profits, dividends and capital
- 60 percent remission of customs duties on buses of 15-25 seats used for the transport of workers.
- Exemption from payment of half the normal registration fee on land and buildings by new industrial enterprises
- Relief on personal income tax for 2 expatriate staff

Pioneer Status Enterprise

The objective of the Pioneer Status scheme s to encourage the transfer of technology, especially in the high value-added sector, and for the development of priority sectors. Investors granted Pioneer Status can export as well as sell their products or services on the local market.

Application Procedure

The application for Pioneer Status is made by filling an application with the Ministry of Industry. Along with the application form the investor must provide information on the structure of the company, how the company is financed, the turnover, export products and export markets. A Committee chaired by the Minister reviews the application. The Minister, who then signs off on the application, grants the approval.

Qualifying activities:

- Activities involving technology and skills above average existing in Mauritius and likely to enhance industrial and technological development
- Applicant companies may come under one of three broad categories: (a) new technology, (b) support industries and (c) service industries.

Incentives:

- No customs duty, or sales tax on scheduled equipment or materials
- 15 percent corporate tax
- No tax on dividends
- Free repatriation of profits, dividends and capital

Strategic Local Enterprise

The objective of this scheme is to promote local manufacturing enterprises that are considered to contribute to the economic, industrial and technological development of Mauritius.

Qualifying activity

Local industry manufacturing for the local market.

Incentives:

- 15 percent corporate tax
- No tax on dividends

Swaziland

The Tax Order includes provisions for tax exemptions in specified classes of income including pension funds; retirement annuities; a benefit fund or a provident fund (including the Swaziland National Provident Fund); and all ecclesiastical, charitable and educational institutions of a public character.

<u>Tax Rates</u>. An individual's income tax is determined by applying the rates set by the Tax Order and deducting the refunds or credits to which the taxpayer is entitled. Income tax for individuals is levied on a graduated scale with over eight taxable income ranges. All income that exceeds E13,000 is taxable. The rate applied is 12 percent for the first E3,000 rising to 39

percent on income above E40,000. The rates set by the Tax Order apply for a specific year; tax policy is announced in the Finance Minister's annual budget speech.

The company tax rate is 37.5 percent; for mining companies, the rate is 27 percent up to E20,000 and 37.5 percent thereafter. Annual income tax is levied on taxable income derived by all companies from sources in Swaziland. Taxable income is defined as "gross income (excluding capital receipts, foreign and exempt income) less allowable deductions (including loss offsets) incurred in the process of production in the kingdom".

Tax Deductions. Tax deductions are authorized for all losses and costs incurred in earning assessable income, except to the extent that they are of a capital, private or domestic nature, or are incurred in gaining or producing exempt income. Allowable deductions include the following:

- expenditure and losses incurred in the production of income (excluding capital expenditure and dividend payments);
- interest charges;
- reasonable depreciation allowances;
- contributions to pension schemes limited to ten per cent of employee remuneration and annuities up to E1,000 per employee;
- all expenses incurred in the training of Swazi employees (in effect 200 per cent) for taxpayers engaged in an approved industry;
- research expenditures relating to production at the rate of annual cost or four per cent of the contract value, whichever is greater.

In computing taxable income, wear and tear deductions are allowed for any industrial building, machinery, implement, utensil and article used for business purposes. For the construction industry, the rate is four per cent; for plant and machinery, the rate is ten percent. Requests for "straight line" allowances will be considered on a case-by-case basis; moreover, the following conditions must be satisfied:

- the taxpayer maintains adequate records;
- the straight line basis will apply to all assets of the same class;
- the annual return of income contains a schedule disclosing, for each asset disposed of during the year of assessment, the date of acquisition and the original cost, the income tax value as at the end of the preceding tax year and the price realized on disposal or scrapping.

The allowance rates will be set in a way that reduces the value of the asset to zero at the end of its estimated life.

In the case of plant and machinery that is operated beyond one shift per day, the following allowances are applied for wear and tear:

- single shift per day 10 percent
- double shift per day 17 percent

- full day (24 hours) 25 percent

If repairs result in a significant extension of the life of the plant, the above-mentioned percentages will be adjusted accordingly.

Special Tax Rates. The non-resident tax rate on dividends is 15 percent; however, it is only 12.5 percent for any dividend paid to a company operating in Botswana, Lesotho, Namibia or South Africa, provided that it is neither a subsidiary nor a branch of a company incorporated or registered outside those three countries. The non-resident tax rate on interest is 10 percent.

Kenya

Export/Import Incentives

An incentive for exporters is access to the Common Market for Eastern and Southern Africa (COMESA) regional market covering 22 countries, allowing taxation advantages and options for trading in local currencies. The market has a total population of 320 million and a GDP of US$80 billion. The aim of COMESA is to establish a common market with no barriers across member countries' borders by the year 2000. Currently COMESA member countries enjoy a 70 percent duty reduction on a reciprocal basis. Kenya, Uganda, and Tanzania also have signed an agreement for the formation of the East African Community (EAC). However, the formation of a parallel regional community in Southern Africa (Southern African Development Community [SADC]), of which Tanzania is a member, has weakened progress in both COMESA and EAC.

Import duty/VAT remission is available to importers of raw material inputs used for the manufacture of exports. Also, manufacturing under bond facilities and EPZs are in use. The Government has an additional Exporter Assistance Scheme and an Export Development Support project, both of which provide grants for export promotion (including export market studies and seminars).

Duty/VAT Remission Facility. The Duty/VAT Remission Scheme (DVR), administered by the Export Promotion Program Office (EPPO) of the Treasury and by the Customs and Excise Department, began in 1990. At that time another export compensation scheme was in force (later abolished as being contrary to the General Agreement on Tariffs and Trade [GATT]). The DVR scheme was established to serve those industries (such as horticulture) that were not eligible for the existing export compensation scheme. It has since been extended to include imported raw materials and consumables such as coal, Coca Cola, furnace oil, petroleum gases and the Essential Goods Production Support Program (EGPSP)—but excludes gasoline, kerosene, lubricants, and plant machinery and equipment. The EGPSP covers "essential goods" as are specified by the first schedule to the Customs and Excise Act (such as pharmaceuticals). Approximately 358 companies are registered as participants in the DVR scheme; however, only 116 are categorized as "active" (i.e., participants that have submitted two or more claims during a fiscal year).

DVR applies not only to enterprises that import such items for re-export, but also to those that import and then sell these items to other firms who use them in the manufacture of goods for export. In this indirect exporter category, approximately 48 companies are registered, of which 16 are "active." Companies who wish to participate in the DVR scheme must submit Form C-60 (C-56 for indirect importers) along with the following documentation: a cover or introductory letter written by a senior company official; a detailed production plan stating the input/output coefficient, including waste; and a copy of an import declaration form (IDF).

Alternatively, it is possible to submit a record of exports from the past one to three years and obtain approval for remission of duties on imports equal to those imported during the highest six months within that period. Warehousing Entry Form C-16 is required for imports of raw materials in excess of immediate production requirements because they must be stored in a Customs bonded warehouse to remain eligible for DVR status. DVR members may not concurrently use any other export incentive scheme such as MUB or EPZ.

EPPO has established an internal goal of facilitating approval within seven working days or less. In practice, approval times may range from hours to weeks, depending on the applicant's familiarity with the EPPO officials. In the event of rejection, a valid reason will be given within seven days. All importers belonging to the DVR scheme must undertake a Customs Security Bond (valid for nine months) to guard against misuse or improper diversion of the imported items. Three-quarters of the bond must be posted up front in capital. The release of the bond requires approximately one week. Within nine months of the commencement of operations, companies must submit a reconciliation form that confirms that imports have been used in exports or in goods sold to approved customers. Customs and Excise should audit this form within 90 days.

If, upon audit and inspection by the Bureau of Auditors (who are responsible for inspecting and verifying the amount of raw materials being used in the production process), inconsistencies are found, charges may be levied totaling 3 percent of the total taxes payable per month (effective from the date the goods enter the country). Payments are made through the Customs and Excise Department.

<u>Manufacturing Under Bond (MUB)</u>. Manufacture Under Bond schemes exist in Nairobi, Mombasa, Nakuru, and Eldoret. MUB companies enjoy an investment deduction rate of 100 percent, but if such operations cease within three years of the expenditure, the amount of the additional investment deduction is recoverable by the tax authorities. MUB offers duty- and VAT-free import of raw materials, a 100 percent investment allowance (against the general 60 percent rate), and, usually, exemption from the 2.75 percent (increased from 2 percent in January 1997) fee for pre-shipment inspection of imports. Goods may be sold on the local market upon payment of duty and VAT, along with a 2.5 percent surcharge.

Applications for MUB registration are processed by the IPC, approved by the Finance Minister, and operated by the Customs and Excise Department. Eligibility for MUB status requires a manufacturer to show at least Ksh 10 million worth of exports per year or to provide employment for at least 50 workers (the number is negotiable depending on the technology involved) and an annual registration fee of Ksh 40,000. The manufacturer is also required to demonstrate a foreign market for the goods. Early 1998 saw eight licensed MUB projects still operating, although a number of others are dormant.

Analysis

Issues

While countries have recently rationalized their import duties and lowered tariff rates, the overall tax and regulatory burden are considered by some to still be high than in other states worldwide competing for similar investment capital.

Table on Interest Rates in the Region (%)

COUNTRY	LOCAL CURRENCY LOANS	FOREIGN CURRENCY LOANS	SPECIAL LENDING SCHEMES
Burundi	19 – 25	-	-
Comoros	10 – 15	-	9 – 15
Kenya	19 – 26	-	20
Madagascar	20 – 26	-	20
Seychelles	10	-	-
Tanzania	19 – 25	6 – 10	3 – 8
Uganda	25	16	-
Zambia	40 - 50	5 - 12	1- 20

Source: Report of the First Regional RIFF-TWG Meeting (March, 2001)

By charging visa fees at the Livingstone border, tourist operators assert that the government is deterring many potential day visitors who would otherwise cross the bridge from the more popular Zimbabwean town of Victoria Falls. Current tax rates (2001 figures) for selected COMESA countries is given in the table under the reference annexes.

Agro-producers suggest that the government's incentives related to agriculture are too narrowly defined. Some in the sector suggest that significant factors that raise their costs of doing business include a lack of quality transportation and storage providers and other services.

2.4 Operating

Several aspects of operating a business in COMESA countries require interaction with the government. This chapter addresses clearing imports and exports, acquiring foreign exchange, and repatriating profits. Of these four issues, clearing imports is the most serious operational problem faced by businesses in the region. This section covers issues concerning procedures for goods clearance and various duty payment schemes, such as duty drawback, bonded warehousing, and rebate manufacturing.

Importers are required to pay duties when goods are cleared from customs. Tariff structures of COMESA countries have been simplified in recent years to a 3 - 5 band system as illustrated below.

Tariff Structures (2000 Figures)

COUNTRY	**No. of Tariff Bands**
Comoros	3
Kenya	4
Rwanda	4
Seychelles	11
Uganda	3
Zambia	4

Source: Report of the First Regional RIFF TWG meeting (March 2001)

When importing goods, Customs duty is assessed first, import VAT is then assessed on the uplifted value and finally excise (in the cases it applies) is assessed on that total.

Import Process

As of June 1, 1998, all of Zambia's import transactions are covered by a Single Bill of Entry, as are a number of other countries. This form was adopted as a platform for the eventual computerization of customs operations in Zambia. The introduction of the ASYCUDA computer system has been positive and the Customs and Excise Department estimates that over 90 percent of its operations are now computerized.

Not all border posts in the region handle commercial imports and exports.Thus, some operational aspects of the various Customs and Excise Departments vary from post to post and are dependent on opening and closing hours. This is one area that requires harmonisation at a regional level, particularly major border areas such as Chirundu between Zambia and Zimbabwe as well as the Malawi/Mozambique and Kenya/Uganda posts. Business people can then trade or travel knowing that any particular key border in the region will be operational at certain hours. This variation is best described in the case of Zambia given below (as at 1998 during the Roadmap study)

Customs and Excise officials stated that Chirundu processes imports from 6:30 am to 6:00 pm seven days a week, including Zambian holidays. The Lusaka Port was open 8:00 am to 5:00 pm seven days a week and occasionally extended its hours. The Lusaka Airport was generally open 8:00 am to 5:00 pm, but would occasionally stay open later to accommodate shipments that arrived after normal hours of operation. During the week, Livingstone was open 8:30 am to 1:00 pm and reopened from 2:00 to 5:00 pm, and on weekends and public holidays the post was open from 8:30 am to 1:00 pm. Hours of operation are stated in the customs and excise act (as amended).

Several international and local clearing agents/freight forwarders operate in the COMESA region to attend to all formalities necessary for the clearance of goods through customs, including any required permits, documentation, payment of duties, port charges, forwarding, transport costs, and bonded warehousing. Importers may also import goods directly. Clearing agents must apply to an appointed authority or committee to receive a license. Agents that wish to perform RIB services must post a bond and indicate in their license application that they wish to perform this service.

Freight forwarders and clearing agents are required to keep copies of all of the previous five years' import documentation. Reportedly, this documentation is occasionally inspected by the Trade ministry or Revenue Authorities for accounting and statistical purposes.

Refunds, Remissions, or Rebates of Duty

Duty Drawback

A duty drawback scheme provides refunds for import duties paid on materials used in the production of an export. Manufacturers may apply for refunds upon export of the final product.

Bonded Warehouses

Most countries provide for bonded warehouses and operate the manufacturing under bond (MUB) scheme.

Exemptions from Duty

Investors

Holders of an Investment License with special incentives issued may, under the Investment Act, enjoy rebates on approved goods intended for the investment venture.

Commercial Travelers

Product samples that are intended solely for use in business, or for exhibition at Trade fairs and Missions and not for resale may enjoy a rebate.

New Residents

Individuals who arrive in Zambia to take up residence or resume employment are exempt from duty in respect of household and personal effects excluding motor vehicles.

Tourists

Temporary importation and goods not intended for consumption are exempt from duty. However, goods are regarded as temporarily imported for a specified number of months only; thereafter, full duty will apply.

Diplomats

If goods are supplied directly to a diplomat accredited to a country, duties are not levied. This is in line with Article 36 of the Vienna Convention on diplomatic relations, as applied by the Diplomatic Immunities and Privileges Act.

Excise Duties

Certain goods are subject to excise duties in addition to other taxes. Excise duty is charged on such goods as alcoholic beverages, soft drinks, tobacco, hydro-carbon oils, tires (both imported and domestically manufactured), and electrical energy. Generally, Excise duty rates range from 0 percent to 130 percent as shown in the earlier table of taxes.

Issues

By all accounts, most customs departments have made dramatic improvements in recent years. Whereas in Zambia, for instance, more than 34 forms were once required to clear goods, now only one is used in most areas. According to the private sector, the time it takes the Department of Customs and Excise to process the paperwork required to clear goods has fallen from an average of 20 days to fewer than 4.

There is a widespread consensus within the regional business community that the Department of Customs and Excise is inaccurate in its suggestion that its officers in several countries can process a shipment's paperwork within one day. Some businesspeople report that Customs officials generally clear goods within one day, and many others have stated that three to four days is a more common duration.

There are several reasons why importing goods to a country can take more than one day. Importers complain that many front-line customs officials lack the training and expertise required to process imports and exports quickly. Furthermore, many in the private sector say that many junior and mid-level Customs officials were typically unresponsive and rude to businesspeople when in conflict. Businesses note that in recent years Customs officials (under the autonomous Revenue Authorities that were reformed from government departments) have regularly rotated to different posts and new policies are frequently introduced, increasing the learning curve for Customs officers.

The cost of doing business in the COMESA region is negatively affected by its underdeveloped infrastructure, and the import and export processes are particularly beholden to the state of a country's transportation and communications systems. Border facilities such as parking space, telecommunications, rest houses and processing counters need to be upgraded in view of the growing trade in the region.

The Department of Customs and Excise does not always refund deposits or duty rebates in a timely fashion. As noted in the Roadmap studies, officials have suggested that the delays in receiving rebates and other monies is not related to processing by Customs officials but rather an issue of government cash flow problems. Although duty drawback has been available to exporters for several years, Revenue officials report that due to a lack of clear guidelines and administrative constraints, the scheme had been underutilised. In this regard there is a clear need for improving awareness levels.

Several specific infrastructure improvements would increase the speed with which goods cross borders. Widening the bridge at Chirundu will greatly assist in speeding the flow of traffic between the Zimbabwe and Zambia. Current donor-assisted efforts to privatize and revitalize the railroad system could have a significant impact on the regions transportation infrastructure. The governments should offer incentives for integrating an improved rail system into the nationwide transportation network, so that good roads will connect with rail heads and sufficient off-loading equipment is in place to speed the flow of goods. Donor assistance, user fees, and private capital should be sought to improve infrastructure in the region.

The Revenue Authorities should examine ways to improve the quality of its licensed clearing agents. If the current system allows for incompetent agents to get a license, as part of the licensing procedure they should introduce a mandatory course in how to process imports and exports properly. Raising licensing fees for clearing agents could offset any costs for this training.

Governments should enact the necessary legislation to guarantee that the Department of Customs and Excise can pay out refunds and deposit returns in a timely fashion.

Foreign Exchange Control and Repatriating Profits

Foreign Exchange

Significant progress has been made in the liberalization of exchange controls in most countries over the last decade.

For instance, following repeal of the Exchange Control Act in February 1994, Zambia established full convertibility in both the current and capital accounts, and currently there are no restrictions on trading Kwacha for foreign exchange. There are no controls on the movement of capital in or out of Zambia, although amounts over US$5,000, carried in or out in cash or travelers checks, must be declared. Bank accounts may be held in local or foreign currency, and funds are easily transferred out of the country or held offshore.

A number of "bureau de change" now compete with banks in regional countries to buy and sell currencies. In addition, most banks' foreign currency transactions use spot rates.

Financing

Domestic financing is, however, in short supply, except for export-oriented production. A number of merchant and commercial banks, finance only short-term loans; but they can help finance imports and exports, process commercial letters of credit, and manage foreign currency accounts and transactions. Foreign investors can compete with locals on equal terms to get access to local finance, based on the viability of the project proposal (rather than ownership)

Repatriating Profits

Companies operating in Burundi, Comoros Madagascar, Malawi, Mauritius, Namibia and Zambia can repatriate 100 percent of their profits and deposit funds. For tax purposes, the authorities require that companies report all income, dividends, and other revenues, but there is usually no restriction on where a company's money is deposited or reinvested. However, some countries require that a percentage of the export receipts are retained in local banks within 3 – 6 months of the shipment.

The liberalization of its foreign exchange market has greatly increased COMESA's attractiveness to potential investors, but there is need to sustain these reforms without reversal of policies. On the other hand, while repatriation of profits has been liberalised, the limited availability of foreign exchange has sometimes made this incentive difficult to implement fully. Zimbabwe currently has foreign exchange restrictions, while limits on travel allowances is common with other member states too.

Despite years of effort, countries are still heavily reliant on imports for consumer and capital goods alike. Considering the need for imports and limited sources of foreign exchange, a number of countries are vulnerable to external economic shocks and a lack of investor optimism

Investors in the region often report delays in getting access to foreign currency and, due to consistently high interest rates, difficulty in negotiating long-term loan financing. Foreign companies with offshore banking accounts have easier access to long-term financing, but local investors are often unable to find adequate funding for expansion projects or new investments.

Given the recent number of bank failures (particularly in Kenya and Zambia), the governments should review current bank regulations to assess whether oversight mechanisms are inadequate or poorly enforced. Encouraging a mix of international and Zambian banks to operate in the country should increase healthy competition and strengthen the financial sector.

Sources of short-term financing should be identified, especially in the agricultural sector where most COMESA countries have a comparative (and in some cases competitive) advantage particularly with the abundance of land and relatively cheap casual Labor. Regulatory changes should be made to allow leaseholders to use their right to title as collateral for borrowing. Furthermore, public education campaigns should be undertaken to increase mass awareness of savings mechanisms end to mobilize untapped financial resources in the informal sector, and the need to formally acquire title to land. As banks increase their liquidity and the public becomes more familiar with private sector borrowing and participation in securities/the stock exchange, the supply of loanable funds should increase in regional countries.

Annex 1: What an investor might typically encounter in an African country

An experienced foreign investor (international conglomerate) in the chemicals sector, with capital to invest and access to long-term credit, learns that there are increasing business opportunities in Africa. A team visits several African countries where the group has not invested previously. In country X, the team identifies an unfulfilled demand for pharmaceutical products and available human and physical resources as well as possible local partners; this combination suggests a good business opportunity. The investor goes to the one-stop investment promotion agency where information on the investment code is available. Included in the package of information are details about registering a company, business name, and patents, obtaining a trading licence, the labor code, corporate and employment tax rates and procedures. With the tax and other incentives, which are available, the idea begins to look even more attractive. A suitable site is chosen and plans for constructing a factory are drawn up; and the time has now come to set up a corporate legal presence in the country. Despite the information and help from the investment promotion agency, the investor is well aware that new businesses in general, and the pharmaceutical sector in particular, will require additional licences and permits. Now the administrative hassles begin. First, there is the question of land title and use for the site, which is unused but is known to be owned by a major parastatal. Current legislation does not permit a foreign investor to hold freehold title. Can a locally registered company hold freehold title, especially when some of the shareholders would be nationals? The investment agency's advice – to let the local investors acquire the freehold and for the new company to lease the property – is not fully convincing. This means going to a lawyer versed in commercial law. Two issues arise immediately: (i) it is unclear what form the legal entity should take - a registered company or a branch; and (ii) land use requires approval at three levels: district (which takes account of the objection procedure); regional (which considers regional implications and where clearance is required before submission to the Ministry; and national (i.e. the Ministry). The lawyer undertakes to look into these matters and to carry out a search on the land title of the selected real estate property. The lawyer discovers that a title document does not exist at the Lands Registry. No-one appears to know what to do in this case of no title, even though there is a general belief that the property is owned by enterprise Y; and, of course, a lease title cannot be drawn up without evidence of the principal land title. Even more complicated is the fact that it is known that the property was sequestered by a previous government some years ago, and that if today the government (through the current parastatal owner) attempts to sell the property, a claim from the original owner is very likely. The investor asks the officials in the Lands Registry and the investment agency, as well as the lawyer, to look into the whole question and to come up with a definitive set of recommendations to resolve the issues. Meanwhile, the lawyer has also advised the investor that although the investment agency can help facilitate the company registration and issuance of a trading licence, other licences and permits are also required. First, with regard to the factory, it will be necessary to obtain clearance from the Ministry of Natural Resources and the Environment. This Ministry will be concerned about the possible levels of air and effluent pollution; so negotiations on acceptable levels and how these will be recorded and monitored will have to be held. Second, a building permit is required; so the factory plans will have to be submitted to the Ministry of Housing and Construction for approval. Third, since the factory will produce medicines, individual licences for each product will have to be obtained from the Ministry of Health. This is likely to take some time, because the Ministry has no experience of the manufacture of some of the proposed products and has no research facilities for testing. Meanwhile, the foreign investor's representatives go to a local bank to draw cash. There is a problem: cash was transferred two weeks previously but at that time an account had not been opened; indeed an account cannot be opened unless a company or a branch of a company has been registered or the individual is a resident. The hassles have only just begun. Will the investor have the time and patience to deal with these hassles over the next several years to get the business up and running and be prepared to meet the extremely high transaction costs; and will the capital now available for investment still be accessible in three years time?

Extract from the CBI Roadmap for Investment facilitation [Draft Paper for Consideration at the Technical Working Group (TWG) Meeting (Mauritius, November 16-17, 1998), pp16-17]

REFERENCE ANNEXES

TABLE ON DIRECT AND INDIRECT TAXES
(All in per cent)

Country / Type of Tax	Burundi	Comoros	Kenya	Madagascar	Rwanda	Seychelles	Tanzania	Uganda	Zambia
Personal Income Tax	0 - 60	5 – 30	10 - 30	0 – 45	0-40	5 (SSF)	17.5 - 30	0 – 30	0 - 30
Corporate Tax	20, 40	30, 50	30	35	40	0, 25, 30 40	0, 30, 37	25, 30, 45	15, 30, 35, 45
Capital Gains Tax		15	None	15	Nil		10, 25	-	
Dividends Tax	20	15	10	5 – 30	20	NA	10	10, 15	15
Excise Tax		3, 5, 10	85, 130	10 – 20	10,60,80, 90	Specific Taxes	20	-	10, 35
Withholding Tax	4, 10	NA	2 - 10		5	2 - 15	2 - 20	2	15
VAT		NA	18	20	15	NA	20	17	17.5
Sales Tax		NA	NA			5 – 15	NA	NA	NA
Other Tax	7, 17, 20			5 (TT) 3-10(PT)		3 SDTT 4 and 10 (PTT)	4 (Stamp Duty	4 ILC	2 (MRT) 2.5 PTT)

SSF = Social Security Fund; TT = Transaction Tax; PT = Property Tax; PTT = Property Transfer Tax; MRT = Mineral Royalty Tax, SDTT = Stamp Duty on Transfer of Shares; ILC = Import Licence Commission

TABLE OF – TELECOMMUNICATION RATES
(In US Dollars per minute)

Country / Type Of call	Burundi	Comoros	Kenya	Madagascar	Seychelles	Tanzania	Zambia
National	0.07	0.08	0.34	0.25	0.04	2.89/1.72	0.04
COMESA/ SADC	1.20	3.33/2.22	1.65	2.85	-	1.80	2.00
RSA	1.53	2.00	2.00	1.90	1.38	2.40	2.00
Europe	1.00	3.33/1.16	2.00	1.90	-	2.40	2.00
USA	1.53	4.0	2.00	-	1.38	3.23	2.00
Other							

Comoros: Calls to Europe cost US$3.33/min except for calls to France which cost US$2.22/min; Faxes to COMESA cost US$2.22/mi

TABLE OF LABOR COSTS
(Indicative average monthly basic salaries and wages, in US Dollars)

Country / Category of worker	Burundi	Comoros	Kenya	Madagascar	Tanzania	Zambia
Managerial posts	400-600	900	NA	-	251-1005	600-1500
Skilled worker	90-170	350	NA	30-60	100-1005	100-200
Unskilled worker	20-25	170	-	25-30	63-125	20-50
Minimum wage	0.55/day	70	58-73 23	25	38-60	30

Burundi: the legislated minimum wage (SMIG) is US$0.55 per day worked, but in practice it is higher.
Kenya: upper range refers to minimum wage for general workers in industrial towns; lower figure relates to minimum wage for agricultural workers.
Zambia: minimum wage is not strictly applied though it is legislated.

TABLE OF ELECTRICITY COSTS
(In US Dollars)

Country / Type of activity/ Premises		Burundi	Comoros	Kenya	Madagascar	Rwanda	Seychelles	Uganda	Zambia
Residential	**1**	-	1.89-17.0	0.97	10.0/8.67	-	0-1.84	0.55	13.0
	2	0.02-0.04	0.0-0.075	0.02-0.18	0.03/0.04	0.11	0.13-0.33	0.05	0.02
Commercial	**1**	-	7.89	1.94-7.74 10.0-97.0	10.4/8.90	-	1.80-3.10	2.20	25
	2	0.03-0.04	0.45-0.68	0.06-0.09	0.04/0.06	0.11	0.13-0.23	0.06	0.03
Industrial	**1**	1.10-2.20	6.64	7,94, 26, 96.77	0.80	-	1.80-3.10	8.20	75
	2	0.01-0.04	-	0.05-0.07	0.06	-	0.13-0.23	4.30-5.50 0.04	0.03
Institutional/ Social sector	**1**	-	-	1.94		-	5.40	5.50	5.0
	2	0.045	-	0.06	0.08-0.20	-	0.13	5.50 0.04	0.03
Other	**1**		1.89-7.60	3.23	-	-	15.92	2.20	150
	2		0.0-0.075	0.08	-	-	0.13	0.06	0.04

Zambia: "Other" relates to mining sector; Electricity attracts VAT at 17.5% and Excise Duty at 7%.
Kenya and Uganda: "Other" relates to street lighting
Legend: - 1 = Fixed monthly charge, 2 = Charge per KwH